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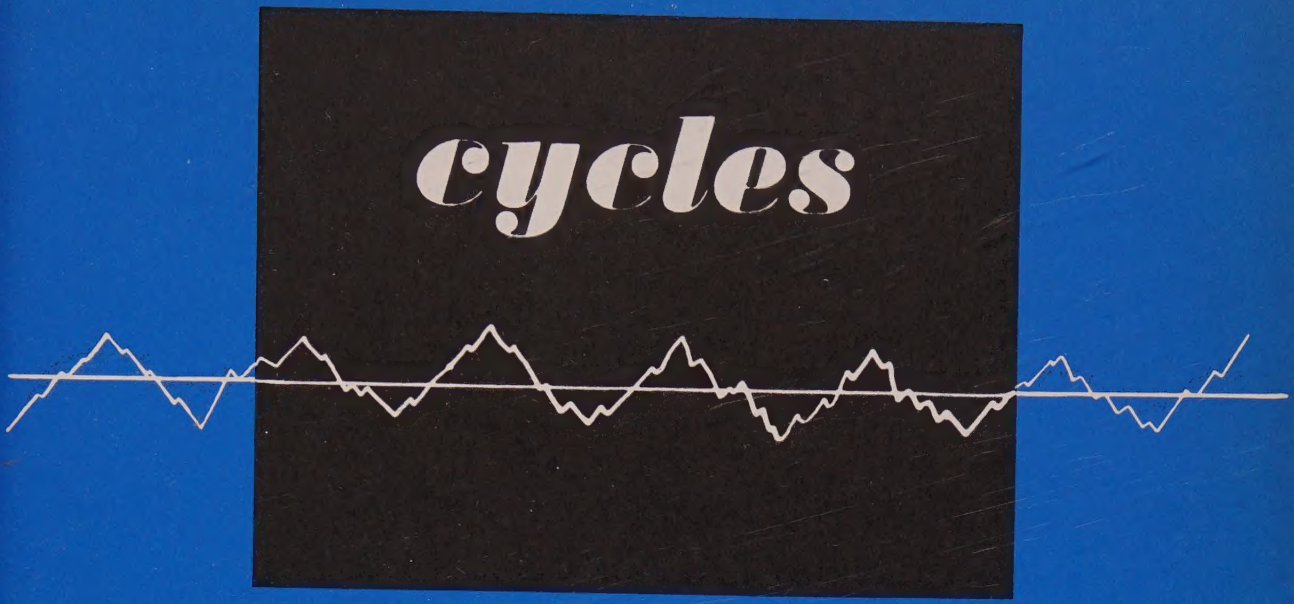

May 1961

FOUNDATION FOR THE STUDY OF CYCLES
New York, New York

cycles

MAY 1961

VOLUME XII, NUMBER 5

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Cycles is published by the Foundation for the Study of Cycles at the Foundation's office at Ea Brady, Pennsylvania. Subscription rate $12.50 a year. Entered as second class matter at the po office at East Brady, Pennsylvania, with additional entry at Dexter, Michigan. Publication offic 680 West End Avenue, New York 25, New York

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DIRECTOR'S LETTER. . . .

Dear Member:

Among the beatniks and the "intellectuals," in labor union circles, in the colleges, and particularly in the government, *profit* has become almost a naughty word. Sometimes I think that if it were spelled with four instead of five letters it would be banned from polite conversation! Among economic illiterates such as these, profit is associated with greed and anti-social conduct. It is considered reprehensible. Even capitalists (another naughty word) speak defensively of profit.

This, of course, is completely upside down thinking.

Profit

Profit (by and large) is the difference between cost and sales value. I make gumboes and sell them for $2.00 each. They satisfy a need worth $2.00 or people wouldn't buy them. I use my brains and devise ways so that I can make them for $1.00. My profit is $1.00. (Horrors!) But note what has happened: I have created something worth $2.00 out of only $1.00 worth of labor and material (cost). I have *created* $1.00 worth of social value!!!

Am I knighted? No, I am mobbed. I am held up to shame and ridicule. I am a profiteer, a gouger, an exploiter, a robber. I am anti-social. If I tell a friend, I do so behind my hand. I am shamefaced about it. I whisper, "And I make $1.00 apiece on the damn things, too!" If people knew the cost they would demand a cheaper price, even though, by our premise, the things are worth $2.00. Labor would demand more money, even though, by our premise, a fair competitive wage was being paid and labor had nothing to do with creating the wealth—the wealth not being the gumboes, but the *difference* between the *cost* of the gumboes and the *value* of the gumboes to the user—the profit. "Look at all the money that son of a brickbat is making," say labor. "Let's get ours!"

Capital

This wealth that I have created by making gumboes for less than they sell for is the source from which society forges ahead. It provides the money for better houses, for factories, for machinery. Yet I am damned for it! If I accumulate it—which is to say, use it to construct buildings and railroads and machinery and other things of value to society, I am damned even more. Take J. P. Morgan as an example. I happen to know that Mr. Morgan lived in constant fear of mob violence and that he always kept steam up in his yacht so that he could flee the country at any time, day or night, if necessary. At all events that's what he told Robert Struthers, and Robert Struthers told me. That's the way we treat the people who create our wealth!

Now I'll admit that when I have made my $1.00 profit I don't *have* to save it, i.e., buy buildings and machinery, etc. I can spend it on myself in fancy living. *That* is reprehensible, but in our upside down world, conspicuous spending brings approbation!

Creating profit is to be praised, no matter how "excessive." Personal spending, however, beyond modest requirements, is to be deplored.

Turn now to a consideration of governmental spending. Here, alas, the guide of profit is absent. Pork barrel, do-good-ism, and political considerations govern.

My scunner against Government (and I hate its guts) is that instead of operating on a sound economic basis it operates either on the basis of what some damn fool at the central place thinks is good for society, or operates to pay a political debt (i.e., a bribe) out of public funds. I've been on the inside and, believe me, I know. It isn't that the projects aren't "good"; it is that they usually don't make a profit (profit is a *good* word!). That is, they don't produce more utility than they cost.

Private vs Public Projects

Consider two irrigation projects—one private, one public. In Apple Valley, California, some people bought up a tract of land for 50¢ an acre. (That was all it was worth or the owners would have sold it to someone else for more.) They brought in water, utilities and added planning, brains, and organization. Then they sold the land for $5,000 an acre. It was worth that much to the buyers, or the promoters couldn't have got it. They had created *value*, and the more profit they made—that is, the less the creation of this value cost them—the more real wealth they created. In a soundly economic society people like that would be *rewarded* by the government instead of being penalized—provided of course that they didn't spend this profit on private consumption.

In contrast, in Western Pennsylvania you—yes, my friend, YOU, even though you live in New York or California—are going to build and *pay* for a thing called Kinzua Dam, projected cost $XX,000,000. Granted that it will create benefits, but at what a cost! The benefits, widely advertised as benefits to "Western Pennsylvania" will actually be for a few landlords (of whom I am one) whose property will increase in value if it isn't flooded quite so badly every few years. These people who "suffer great damage from floods" actually suffer *nothing*. Because the land is subject to flooding they got it just that much cheaper to start with! *You* are going to be taxed to put into the pockets of these lan
lords the difference between floodable la
and non-floodable land. Moreover, to cap i
all, you are going to be taxed for usele
labor and concrete at many times the benefi
to these landlords. That's Government for yo

Isn't it ironic that in Russia, where th
very words of our so-called capitalisti
society are anathema, the Government at lea
tries to run things on a sound economic (capi
talistic) basis—that is, tries to create th
maximum spread (profit) between cost a
ultimate consumer selling price, and uses thi
spread or profit for capital goods i.e., hea
industry (except what it drains off for war
whereas here, where the concept of communi
is anathema, our government out-communis
communism? That is, here, instead of taki
$5 of your $10 and giving it to the fellow w
has none so that each of you has $5 (accordi
to ideal communist theory), they take $5
your $10, waste $4 of it, and give the oth
fellow $1 so that he now has $4, or $5, or $6
But of course if the fellow who gets the
voted for somebody, that makes everything a
right!

Oversimplified Picture

It should be obvious that in painting thi
picture I have been using a broad brush—may
even a whitewash or "blackwash" brush. The
are many situations where economic conside
ation should *not* govern. After an accident y
do not bind up the wounds merely of those w
can pay for the bandages! But the fundament
soundness of my position is disputable. Th
Government can dispute it only at its peril-
and ours.

Cordially yours,

Edward R. Dew

Direct

the may round-up

a summary review of where we are and where the CYCLES indicate we may be going

CYCLES IN THE STOCK MARKET

The sharply rising trend of stock prices since 1957 has cancelled out the drop that is indicated by the combined 11 cycles we have isolated in this series. Figure 1 below shows the actual market average as measured by Standard & Poor's Combined Index of the Price of 500 Stocks on a quarterly average basis as a solid line. The combined cycles plus a short term trend is (frankly speaking) a device whereby we can get some usefulness on a short term basis from what is basically a long term study. The short trend becomes a correction factor which erases the gap that has developed between the actual price line and the calculated price line. On a short term basis it will require a continuously and sharply rising short trend to continuously cancel out the falling cycles. *The combined cycles are going down*, and there is no *cycle* reason (based on our studies so far) for the rise in prices since 1957. Figure 1 below must be constantly revised as the current picture changes, and it is therefore a dangerous application of our basic work. A reasonable conclusion of one week may be modified drastically the next week by events which change the course of the short trend.

This translation of our long term study to a short term basis does, however, reinforce our conclusion that the Standard & Poor's Index of Combined Stocks is rather high, and there is no *cycle* reason, based on our studies so far, for any further sustained and large rise over the next year or so.

The basic cycle study about which we are talking is summarized in Figure 2. The work is

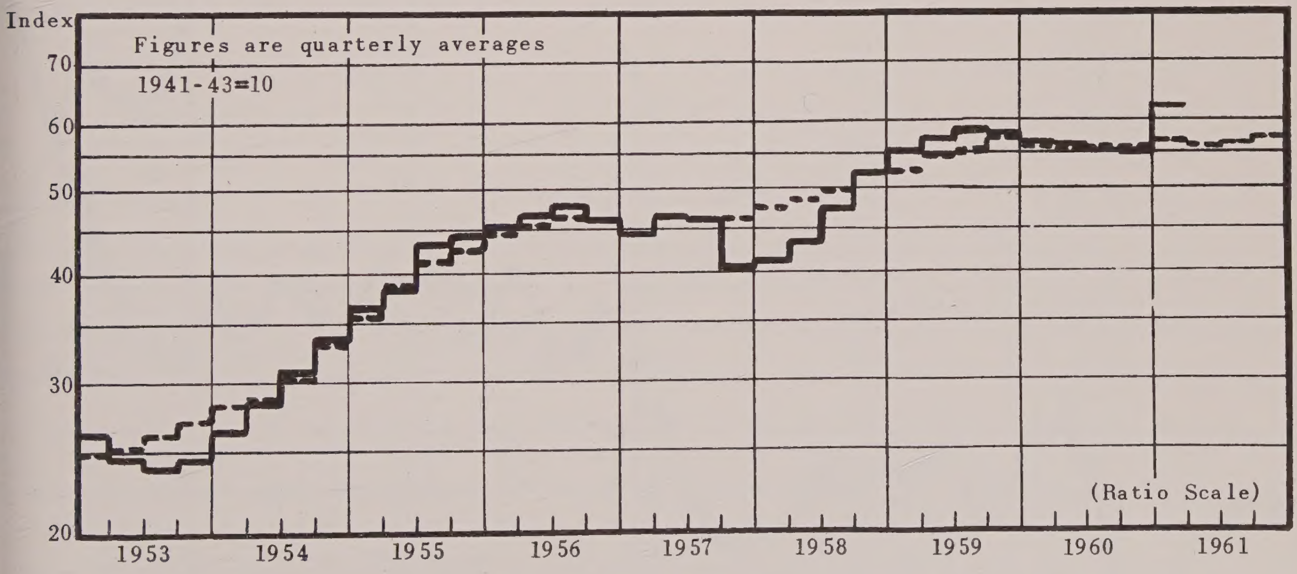
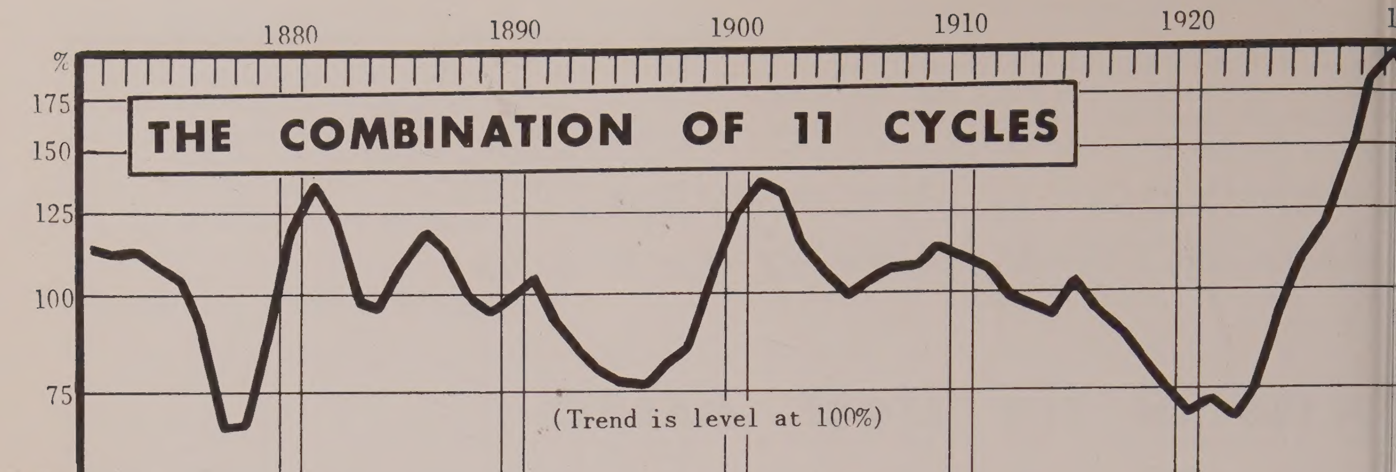


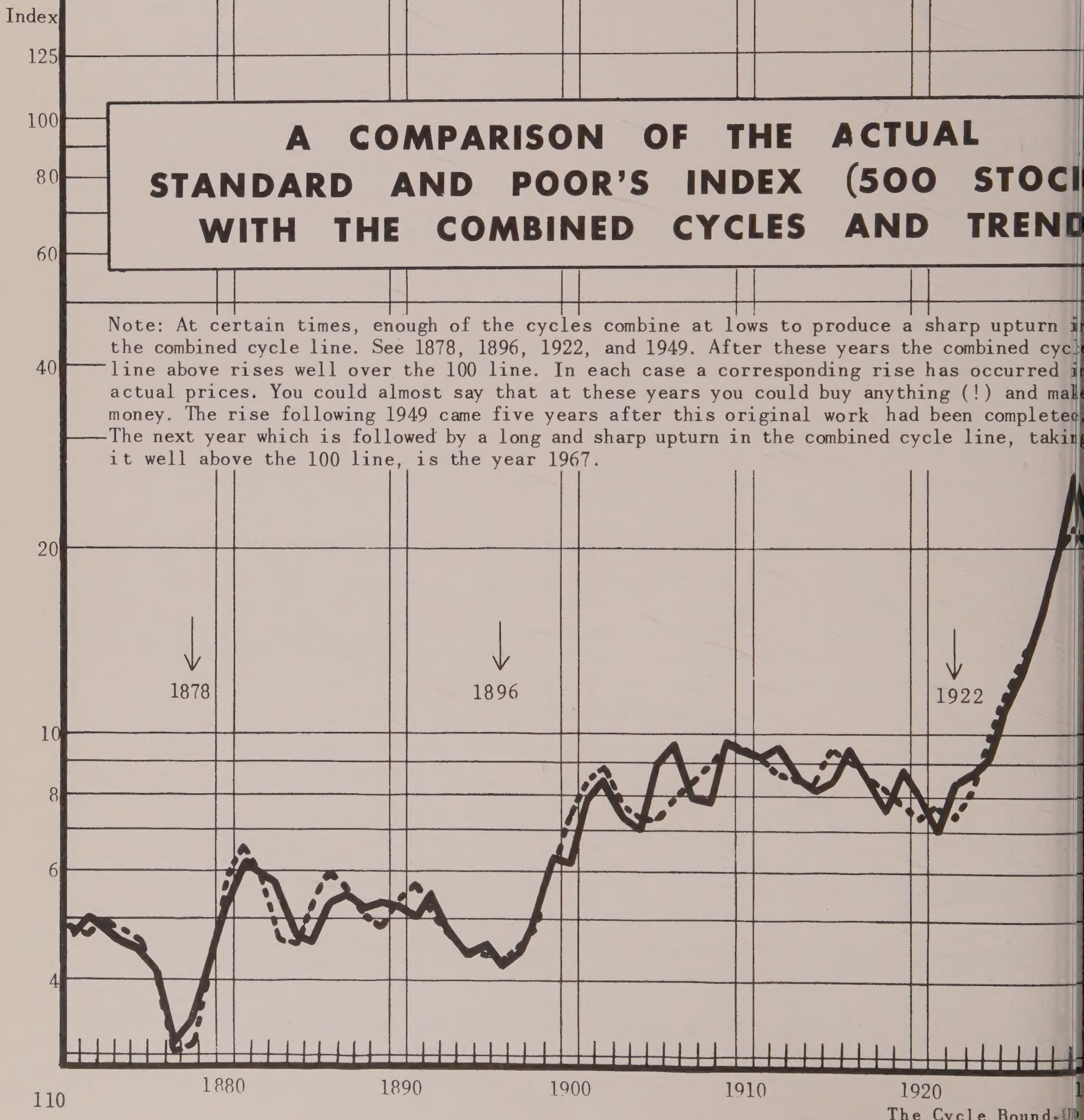
FIG. 1: S & P'S 500 STOCK INDEX VS COMBINED CYCLES AND SHORT TREND

THE COMBINATION OF 11 CYCLES

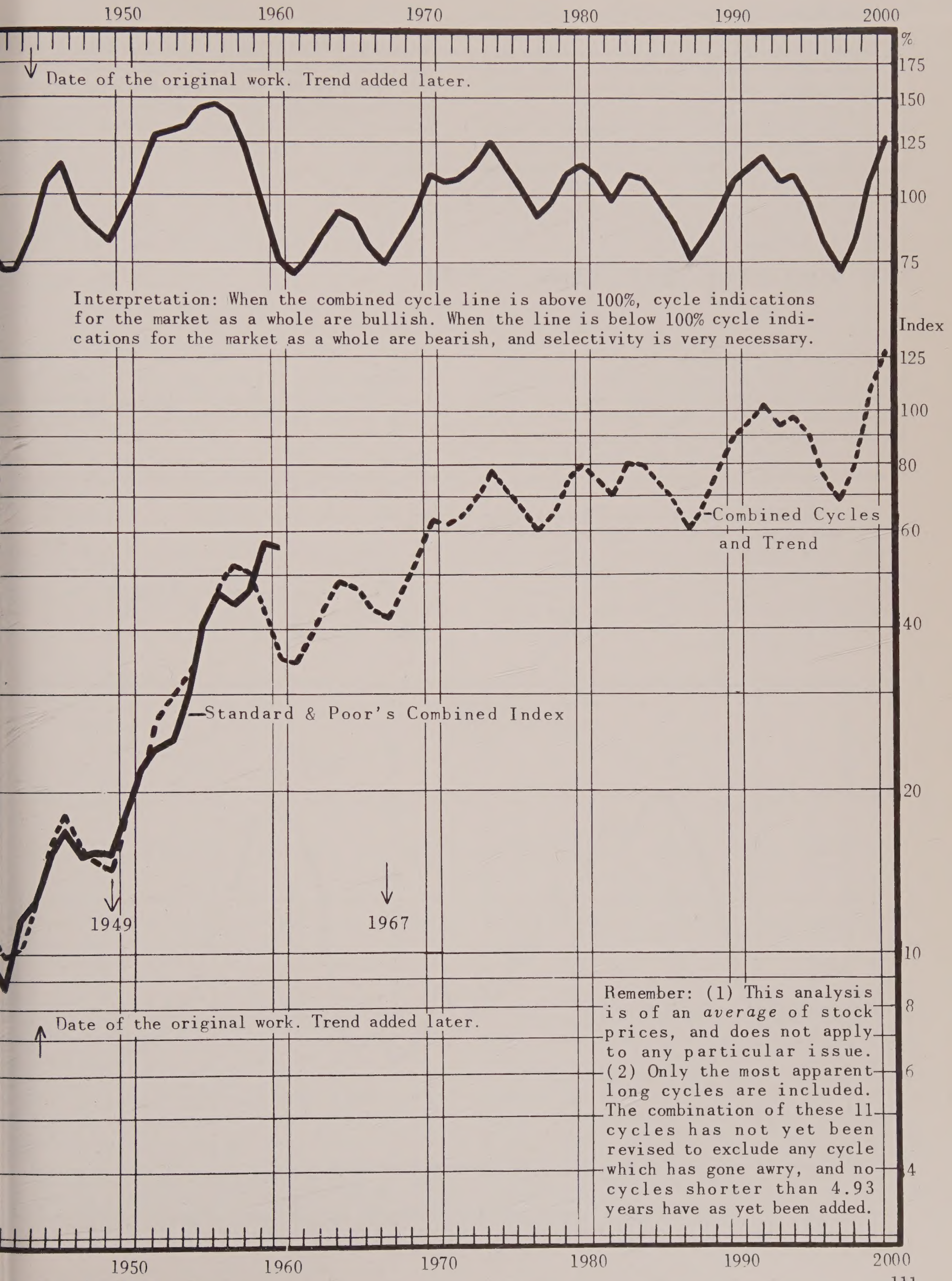


(Trend is level at 100%)

A COMPARISON OF THE ACTUAL STANDARD AND POOR'S INDEX (500 STOC WITH THE COMBINED CYCLES AND TREN



Note: At certain times, enough of the cycles combine at lows to produce a sharp upturn i the combined cycle line. See 1878, 1896, 1922, and 1949. After these years the combined cyc line above rises well over the 100 line. In each case a corresponding rise has occurred i actual prices. You could almost say that at these years you could buy anything (!) and mak money. The rise following 1949 came five years after this original work had been complete The next year which is followed by a long and sharp upturn in the combined cycle line, takin it well above the 100 line, is the year 1967.



Interpretation: When the combined cycle line is above 100%, cycle indications for the market as a whole are bullish. When the line is below 100% cycle indications for the market as a whole are bearish, and selectivity is very necessary.

Remember: (1) This analysis is of an *average* of stock prices, and does not apply to any particular issue. (2) Only the most apparent long cycles are included. The combination of these 11 cycles has not yet been revised to exclude any cycle which has gone awry, and no cycles shorter than 4.93 years have as yet been added.

based on annual averages, and the cycles used are all long cycles (4.93 years and longer). The broken line is the result of adding all 11 cycles on an annual basis to a *long* term trend. (Figure 1 used a *short* trend.) One of the dissatisfactions (and we are aware of it!) of this work is that it is designed to show the *long* range picture. Notes are added to the face of the chart to aid in the interpretation of it.

Because the figures used are yearly averages, short reactions are completely smoothe out. Because the figures used are an Index o 500 Stock Prices, individual issues may diffe from it greatly. This is, strictly speaking a picture of the market as a whole over the long run.

THE ONE-YEAR PER CENT CURVE

After a steady 20-month drop from the top at April, 1959, the one-year per cent curve of the Dow-Jones Industrial Average seems to have rounded out a bottom. See Figure 3 below. The figures used to compute the percentages plotted on the chart are the monthly averages of the daily close.

Prior to 1940 this curve showed a 41-month cycle, but since 1940 it has averaged over 50 months from top to top. Several times in the past, however, rises which started smartly upward (like the rise of the last three months) have petered out and the curve has then hovered around the 100 line. The 1947-1948 period when the Dow-Jones Industrial Average held t a rather level plateau was such a time. It i nevertheless a truism that if you continue th line in the general direction in which it i going you will be right most of the time Unless you add another factor or so to tim the turns you will miss the turns, it is true but this type of curve does *tend* to turn ahea of the figures on which it is based.

I might note that a rigid 41-month schedul based on the previous work on this cycle woul have had a top about November 1956. The actua top was two years away—the cycle was upsid down. The next ideal top would have come a

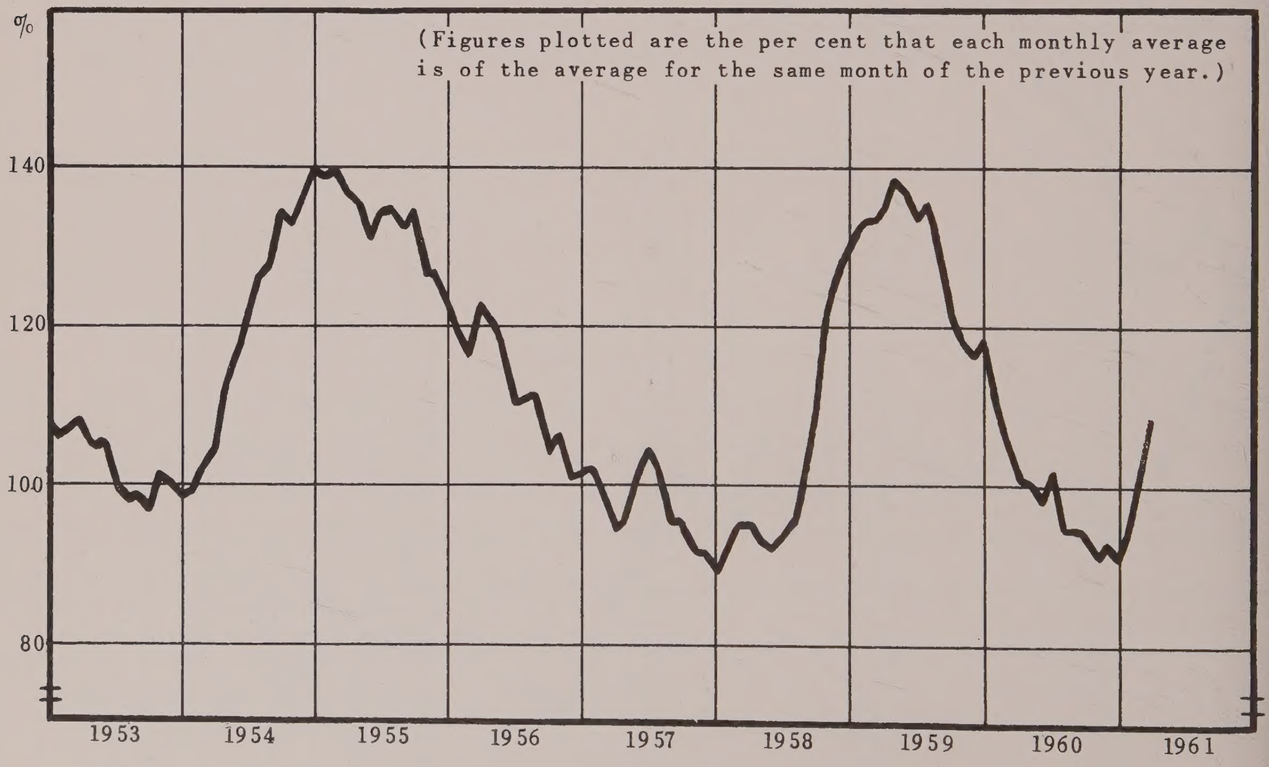


FIG. 3: DOW-JONES INDUSTRIALS—ONE-YEAR PER CENT CURVE

April 1960. The gap between the rigid schedule and the actual curve has shortened to 11 months. This does not mean much except that it raises the possibility that the next top may come on time (September 1963). From the standpoint of cycles this would be an important fact, but as a practical matter the mere possibility does not help us too much at the moment.

The curve is figured simply by dividing the average for each month by the average for the same month of the previous year. The averages for the last eight months of 1960 were as follows:

Mar	614.70	Aug	624.47
Apr	619.98	Sep	598.10
May	615.64	Oct	582.45
Jun	644.38	Nov	601.14
Jul	625.83	Dec	609.54

You can see that it is a simple matter to figure what the possible level would be at any given month in the future if the market is 10%, or 20%, or whatever level you choose, above a year ago. At 20% for November, for instance, the Dow-Jones Industrial Average would be well over 700 (1.20 times 601.14). But at only 10% by December the level would be 670 (1.10 times 609.54).

THE 17-WEEK CYCLE

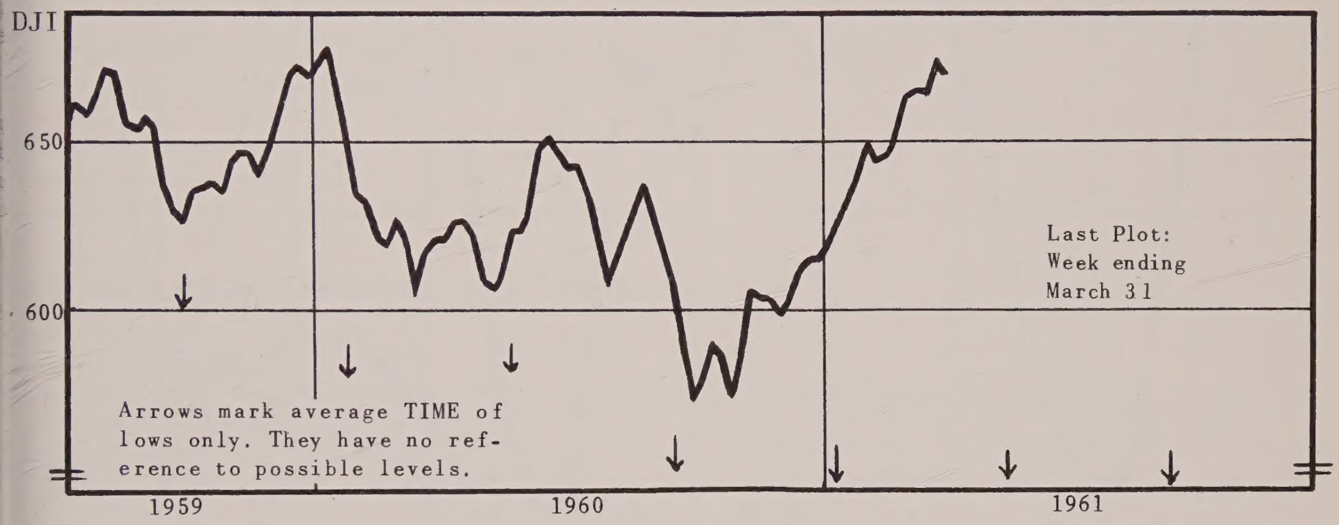


FIG. 4: WEEKLY AVERAGE OF DAILY CLOSE OF DOW-JONES INDUSTRIALS

The 17 1/6-week cycle had an ideal low during the week ending January 14. The force of the strong market rise following the low of the week of October 28 was greater than the down force exerted by this wave after the average high which was due the week of November 27, and the rising trend cancelled out the down-leg of the cycle. It is not unusual for this relatively minor wave to skip a beat or two, but it has been persistent enough that it invariably has returned on schedule.

The chart above diagrams the weekly average of the Dow-Jones Industrials daily close. The average timing of the lows of the 17 1/6-week cycle in these figures is indicated by the arrows. The arrows mark only the *time* of the ideal lows and are not placed to show possible levels.

The next two ideal lows are due during the week ending May 13, and then the week ending September 15. If the cycle is "working," it will appear to some extent as weakness in the Dow-Jones weekly average. As we had just completed five relatively good waves on this cycle, it is not surprising that the January 14 low was not evident. The action of the weekly average around the week of May 13 will indicate whether or not this wave is getting back "on the track."

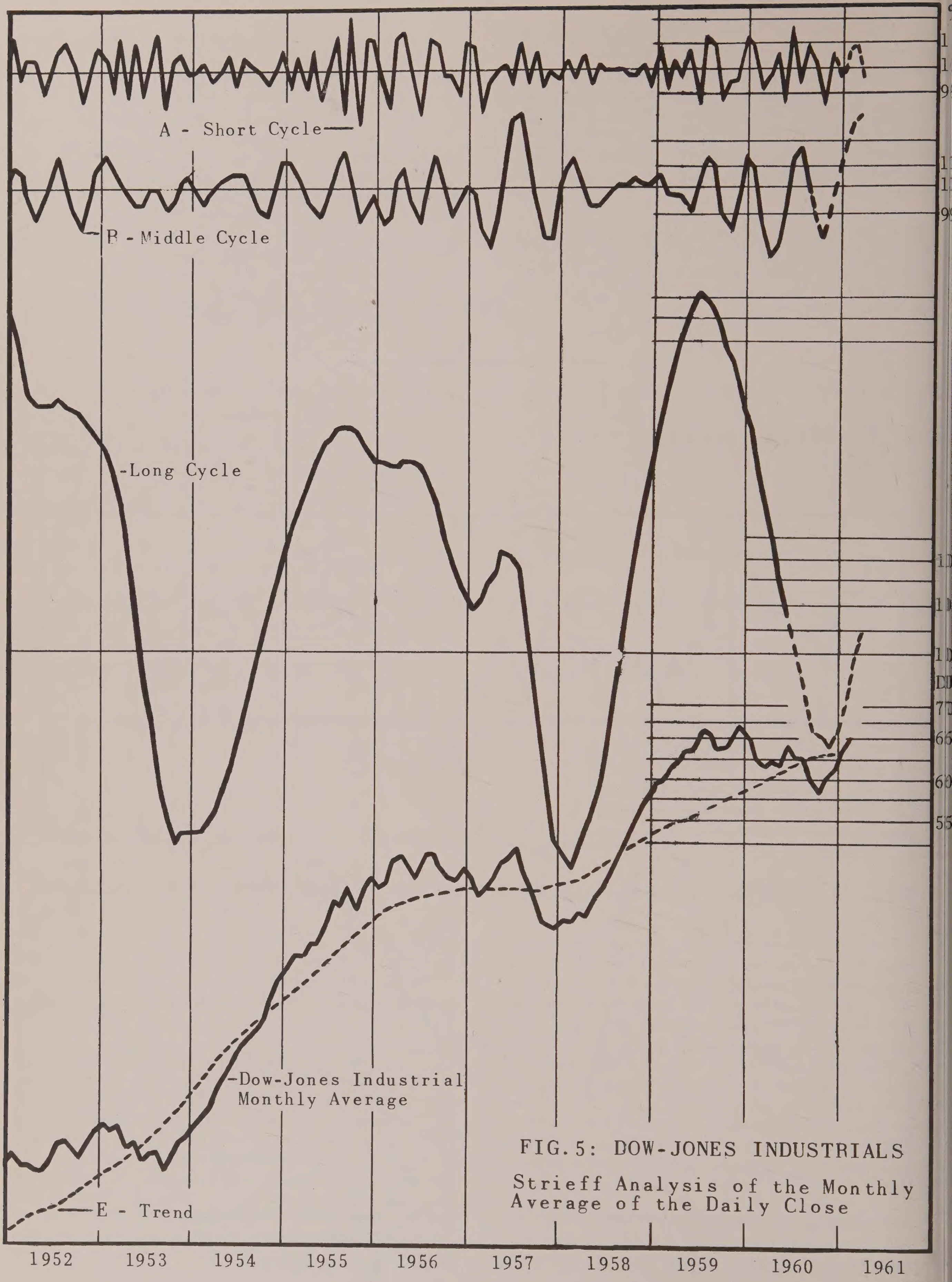


FIG. 5: DOW-JONES INDUSTRIALS

Strieff Analysis of the Monthly Average of the Daily Close

THE STRIEFF ANALYSIS

For those of you who like to tinker we are including the Strieff Analysis of the Dow-Jones Monthly Average in this rather all-inclusive Round-Up.

You will remember that this system does not follow our concept of fairly regular and rigid ideal cycles. Rather, it breaks the data into four parts and the product of these parts is the data. The four parts are a short cycle, a middle cycle, a long cycle, and a trend. A summary of the analysis is shown on the chart on the opposite page. Each wave of the cycle varies in length and amplitude. As it turned out, the long cycle and the trend are the most important parts in the break down of the data in this case. In another set of data, the short and middle cycle could be more important than they are in this case.

In effect, all the cycles, and the random variations are smeared together into the three cycles and trend. Because the product of the parts equals the data, extensions of the lines of the parts can be used to make forecasts.

One interesting result of bringing this material up to date is that the trend now appears to be higher than it was last June when we first reported to you on this analysis. Furthermore, the long cycle has been dropping sharply and may have rounded a bottom at the end of 1960.

As I said above, this article is just for those of you who like to tinker. Here is an example of an actual computation: the December Dow-Jones Industrials trend level was about 629.51; the long cycle was 96.61%, the middle cycle 100.69%, and the short cycle 99.54%; the four parts multiplied together gives 609.54, which was the actual Dow-Jones average for last December.

THE GAUBIS WORK UP-TO-DATE

Last month we showed the year-by-year charts of the average 10-year pattern as worked out by Anthony Gaubis. (See *Postscript to "My Thirty Years' Study of Stock Market Cycles"* by Mr. Gaubis in the April issue.) The average pattern of the "One" years is shown below by the broken line on the chart. December of the previous year is 100% and each month is expressed as a percentage of the December value. This chart is the same as that used last month except that December of the "Zero" year is added at the left of the chart, and the December value of 100% is plotted.

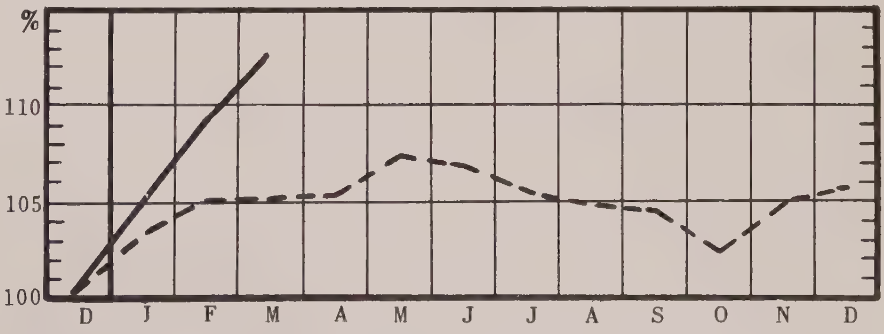
The months for 1961 have been added by the solid line. The figures used are the monthly values of Standard & Poor's Combined Index, and the December 1960 value of this index was

Fig. 6: The Average Pattern of the "1" Years in the Ten Year Pattern

Of all 9 decades (1871, 1881, 1891, etc.):

7 of the "1" years were up
2 of the "1" years were down

from December to December



"The market tends to be irregular in the '1' year of each decade as in 1901, 1911, 1921, 1931, 1941, and 1951." *A.G.*

56.80. The January value was 59.72, or 105.1% of December. The February Index was 62.17, or 109.5% of December, and the March Index (based on eighteen days) is 64.00 or 112.7% of last December. (The final figure is 112.9%)

So far in 1961 (to March 27) the market as measured by this Index has risen much higher than you would expect based on the average pattern of the past decades. Ordinarily the "One" years are irregular—but this pattern behavior is an *average* behavior, and of course individual cases vary from an average. Nevertheless, one could conclude from the comparison of the pattern line and the 1961 line that the recent rise was too sharp and too high.

It is interesting to note that the Dow-Jones Industrial Average has not risen so sharply, percentage wise, from last December as the Standard and Poor's Combined Index. The Dow January average was only 103.7% of the December 1960 figure. At March the percentage was still about the 110% line.

If there is some correction from the high value of March, then the description of the "One" years as being irregular, on the average, will be matched to some extent by the performance of the market during the current year.

CYCLES IN THE STOCK MARKET - CONCLUSION

Despite the fact that trading is done in individual stocks, and not in the averages, it is in my opinion wise policy to have some idea about the market in general—where it has been, is now, and may be going. This first section of the Round-Up brought up to date all the various articles on the market in general which we have published in the last year or so. Here, as with all types of market analysis, a sound interpretation is the key to the successful use of the results. Interpretation is, however, a personal conclusion and there may be almost as many conclusions as there are persons. Nevertheless, certain conclusions have developed from the previous pages and are summarized here.

1. The long term indications based on the 11 cycles and trend are rather bearish. This study uses yearly figures and is a long term matter only. It indicates (if nothing else) that it is necessary to exercise unusual discretion in the selection of issues. It indicates that in terms of average past patterns the market is too high, and suggests that caution is necessary.

2. The intermediate outlook is not too bad, if the one year per cent curve continues the rise it started last January. Of course this curve may go in any direction, but the decline that started in 1959 appears to be over, and a fairly round bottom just passed. Even with some correction from current (March 24) levels the curve could still continue with an upward slope.

3. The only very short cycle we have isolated so far, the 17 1/6-week cycle, missed a bottom at the beginning of 1961. It is necessary to wait and see if there is some weakness around the time of the next bottom, which is due early in May.

4. The "One" years in the 10-year pattern developed by Gaubis are more often better than worse than the preceding "Zero" years, although there is some irregularity. The possible pattern rather bolsters the intermediate outlook from the one-year per cent curve, although the rise so far has been greater than expected and some corrections may be in order.

One other conclusion that can be drawn from the previous summary review is that all the work needs to be further refined, particularly by the inclusion of the shorter cycles. It also needs to be coordinated more thoroughly with other factors so that a truly well balanced conclusion can be reached. At the same time as we are expanding the number of items we include in our coverage, we hope also to enlarge the scope of each study, and eventually to coordinate it with other factors. *G.S.*

CYCLES IN COPPER SHARE PRICES

The chart below on Standard & Poor's Copper Share Price Index is from the December article on the cycle study which was done by a member who prefers to remain anonymous.

So far the two lines are following a reasonably similar course, but the real test is yet to come. This test is the minor top shown for 1961 and the dip which follows into the first quarter of 1962.

The calculated line (the broken one) is the product of 21 cycles and a trend. Two revisions have been made on this line since it was published in December. The first quarter 1961 was raised slightly, and the third quarter of 1962 was also raised.

Because of the close match between the two lines, it would be well to remember Mr. Doe's words, "I regard (this analysis) as only a first approximation. . .I feel that only about half of the lengths used are approximations of significant cycles. . ."

The cycles used range from 16.95 months in length to 12.53 years, but for the longer lengths there were not very many repetitions in the data. Although they were included in the work, we are all aware that their inclusion is risky.

I should mention that in the list of cycles at the end of the article the date shown as a crest for the 16.95-month cycle was the date of a trough, and the crest should have been listed as 1960.167. It would be unusual for the two lines, calculated and actual, to continue to match so well in the future as they have since 1958, but the performance so far must be most encouraging to our Mr. Doe.

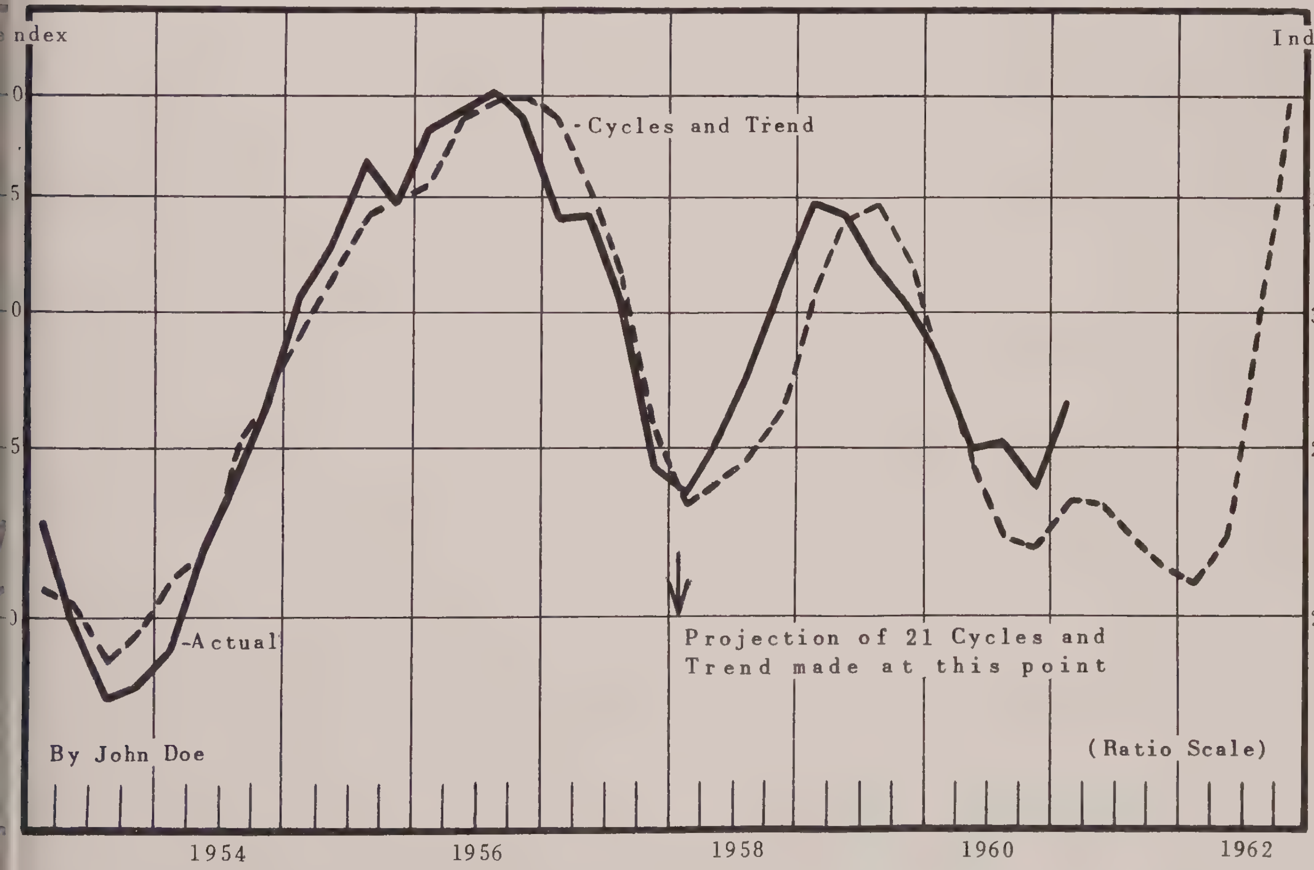


FIG. 7: STANDARD & POOR'S INDEX OF COPPER SHARE PRICES ACTUAL INDEX VS THE COMBINATION OF CYCLES AND TREND

THE YEARLY CYCLE IN CARRIER

In February we reported on a yearly cycle in the price of Carrier Corporation Common Stock. The high for the year, other things being equal, was noted as being about the 15th or 16th week of the year, on the average.

The 1961 figures are noted on Figure 8 below. So far this year the price of Carrier is repeating the pattern of past years, although the rise from the low at the week of October 14 was more pronounced than the average rise since 1954.

Note that in this case, as in the Westinghouse chart which follows, only one cycle has been used. Among the other factors which also influence the prices of these stocks but are ignored on these charts, are all the other cycles that may also be present in the data.

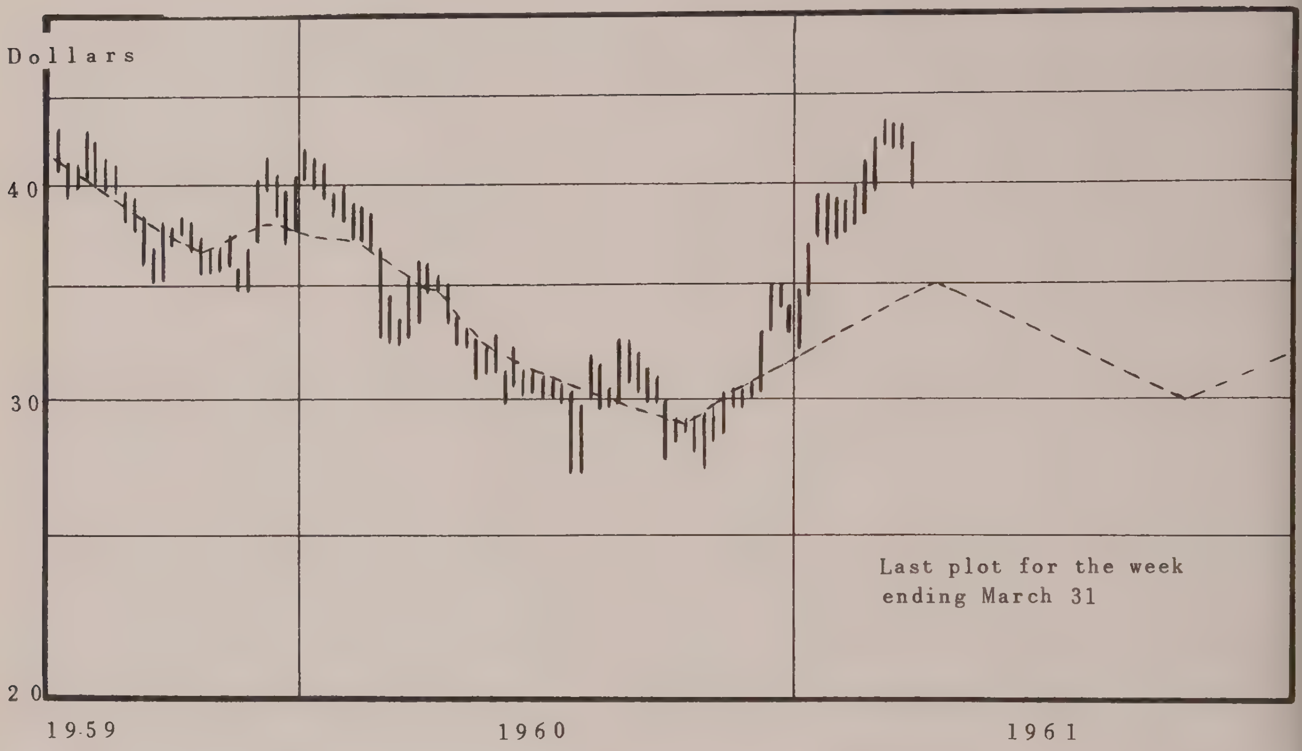


FIG. 8: CARRIER CORPORATION COMMON STOCK PRICES — WEEKLY HIGH AND LOW VS COMBINED YEARLY CYCLE AND TREND

THE 32-WEEK CYCLE IN WESTINGHOUSE ELECTRIC

The only cycle we have reported on as yet in the price of Westinghouse Common Stock is one 32-weeks long. As I mentioned when discussing the Carrier cycle, there are undoubtedly other cycles which also influence the price of this stock. There are other cycles in addition to extraneous influences and random factors, that is.

The average timing of the 32-week cycle is marked on Figure 9 by the arrows. The arrows are not intended to show levels, or actual urning points in prices. They mark only the deal timing of the cycle. They are useful, owever, in that they do help you to see the xtent to which the cycle may be apparent in he prices. The chart also shows high, middle, nd low trend possibilities for 1961.

Whatever cycles may be present are wrapped around the basic trend. The actual weekly price (the average of the high and low for the week) is brought up to date through March 31 by the solid line.

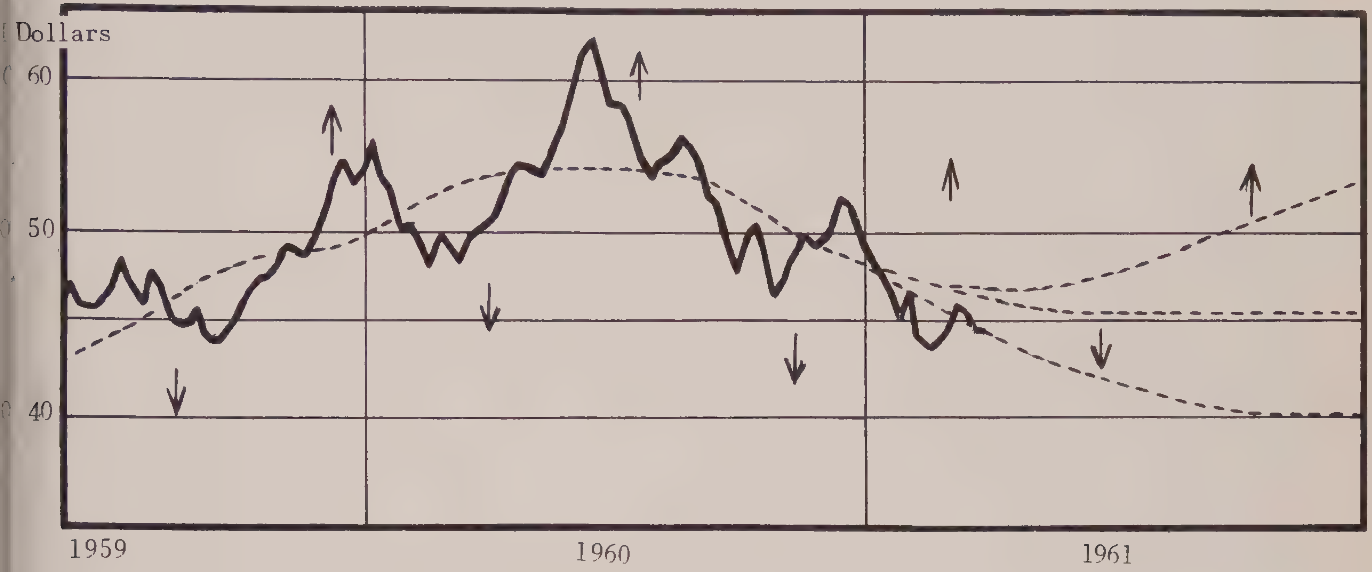


FIG. 9: THE PRICE OF WESTINGHOUSE ELECTRIC STOCK AND THREE POSSIBLE 1961 TRENDS

HE STOCK MARKET VS MANUFACTURING PRODUCTION

It is a curious fact that all economic series do not move in the same direction at the same time. When some are going up, others are going down. It is for this reason that all economic series do not exhibit the same cycles. This discrepancy is often disconcerting to the stock market buffs when they compare the irection the market is moving with the direction that general business is moving. As avid Main of Hyde Park, Massachusetts, reently wrote me:

"Like the professor who is losing his mind ecause the students can't seem to understand the fact that, when business is good the stock market goes up and when business is poor the market goes up. Man, they must be thick when they can't understand that and they are not alone."

During recent months the market has been moving upward at the same time as physical production has been declining. This particular reverse behavior has been happening during recent months, however. If we compare the move in each series from the complete year 1959 to the complete year 1960 we find that while production was going up from 1959 to 1960, the market was going down. It is not at all unusual for general production, measured in this instance by the F.R.B. Index of Manufacturing, and the stock market, measured by Standard & Poor's Combined Index, to be moving in opposite directions at the same time.

Figure 10 compares the records of these two series. The figures plotted are yearly averages. The absolute levels of the two lines on the chart are not important to this discussion. It is the change from year to year in either series compared to the change from year to year in the other series that is the point here. Where the two lines are moving in opposite directions the chart is shaded. In 28 out of 90 possibilities the two lines do move in opposite directions. That is about a third of the time! But, on the other hand they do move in the *same* direction the other two-thirds of the time.

That the series would move in this fashion is not too surprising, however, when you consider the basic difference in the nature of the series. The stock market series was going up in 49 of the years, and going down in 41 of the years—close to a 50-50 split over the years between optimism and pessimism. The market reflects basic psychological

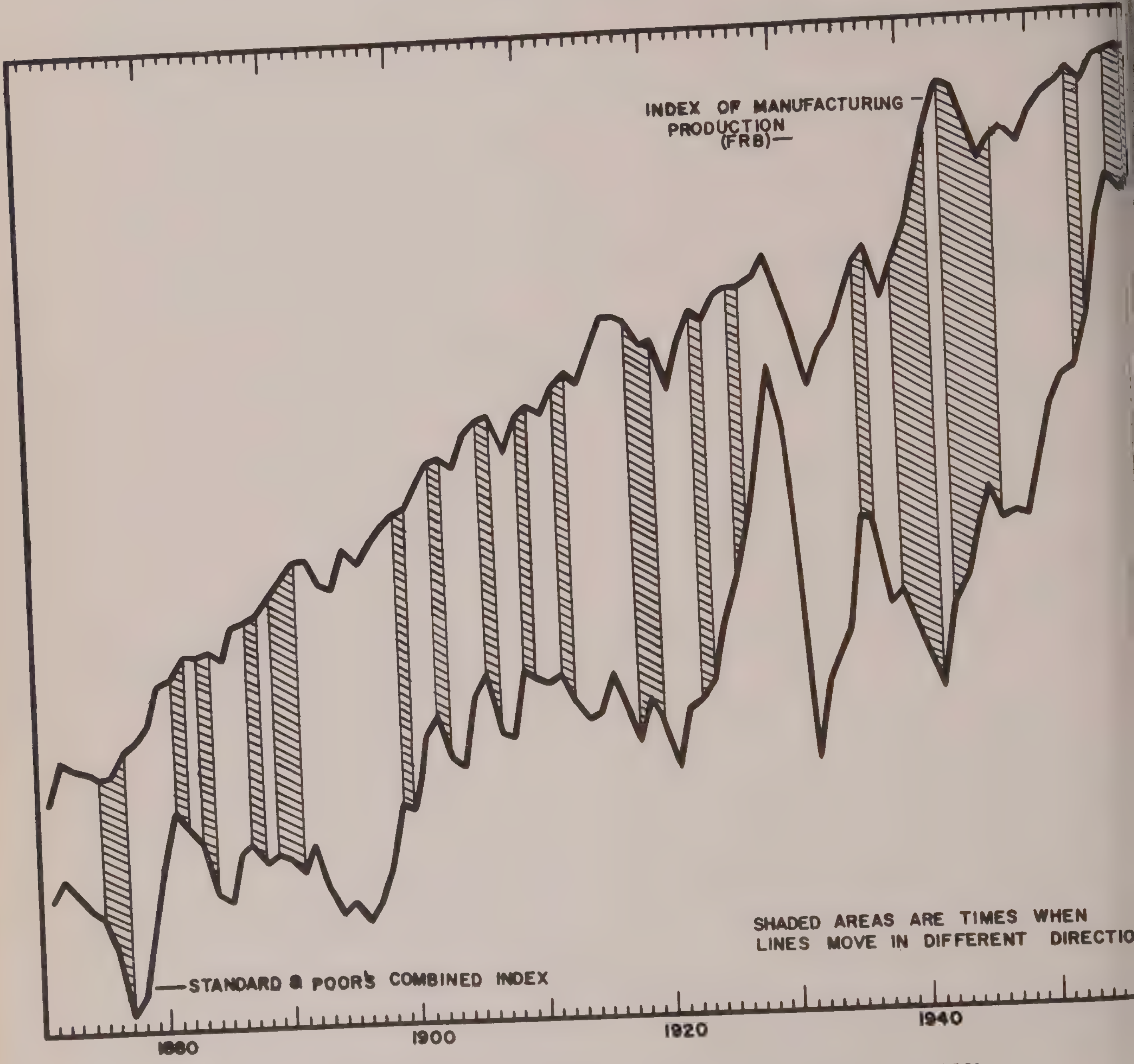


FIG. 10: THE STOCK MARKET VS MANUFACTURING PRODUCTION

attitudes. On the other hand, production, which is a physical matter, went up in 61 of the years, and down in only 27 of the years. There were two years of no change in production. The physical growth of the country, the expansion in population alone, to say nothing f the redistribution of wealth, makes it almost a foregone conclusion that physical production would be up more often than down.

It follows from the foregoing that most of the time when the market was going up, production was also going up. But about half the time when the market was going down, production was not going down, but was going up. In fact, f the 49 years when stocks were *up*, manufacturing production behaved as follows:

In 41 of these years production was also up.
In 7 of these years production was down.
In 1 of these years production did not change.

Of the 41 times when stock prices went down from year to year:

In 20 of these years production also went down.

In 20 of these years production went up.
In 1 of these years production did not change.

So you see, the cycles in the two series *are* different!

E.R.D.

CYCLES IN "LEADING INDICATORS"

Three months have elapsed since the last time we reviewed the eight leading indicators—series which tend to turn ahead of business in general. To be more specific, these series tend to turn ahead of total industrial production. The Industrial Production Index measures the production corner of the economy—trade, transportation, finance, are all separate subjects. We also get some light on what's ahead for Industrial Production by means of the Geisinger Indicator which is on page 133.

Once we had done some cycle work in some of the indicators the temptation to summarize the current status of the indicators, and from this reach an opinion on the general business outlook was just too great. Another reason for making these comments is to help you avoid misusing the cycle concept. Cycle knowledge cannot be used blindly. Remember that the ratings of the current status of the indicators are just opinions. You may reach different conclusions as you go over each chart—that is your privilege!

There is a total of four "Good," one "Neutral," and three "Poor" at the week of April 3.

G.S.

Leading Indicator	Current Status (An Opinion)
Stock Prices	Good
New Orders for Durable Goods	Neutral
Residential Construction Contracts	Good
Number of New Incorporations	Poor
Liabilities of Commercial & Industrial Failures	Poor
Nonresidential Construction Contracts	Good
Index of Sensitive Prices	Good
Hours Worked in Manufacturing	Poor

NEW ORDERS FOR DURABLE GOODS

Combined cycles and trend include a possible 25.5-month cycle and a possible longer cycle of from 50 to 56 months. Although the combination explains the behavior of the series, there are too few repetitions of either cycle for much reliance to be placed on them.

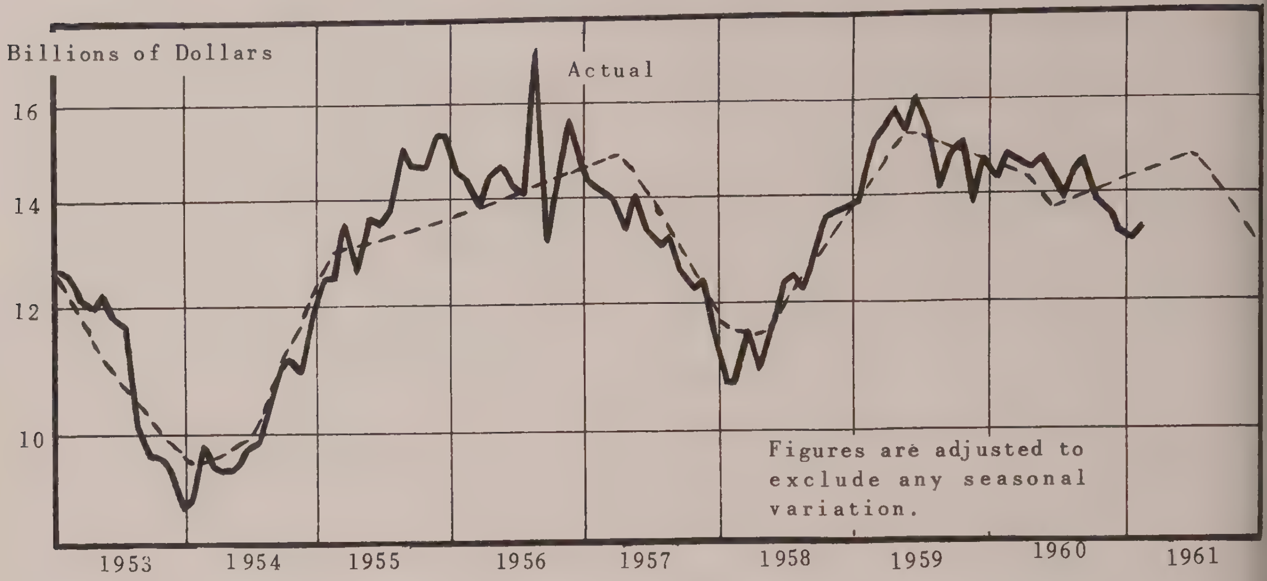


FIG. 11: MANUFACTURERS' NEW ORDERS - DURABLE GOODS

RESIDENTIAL CONSTRUCTION CONTRACTS

The cycles included in the broken line are the 32.3-month and the 12-month cycle. The figures we use here are from F. W. Dodge Corporation, and are the valuation of contracts let.

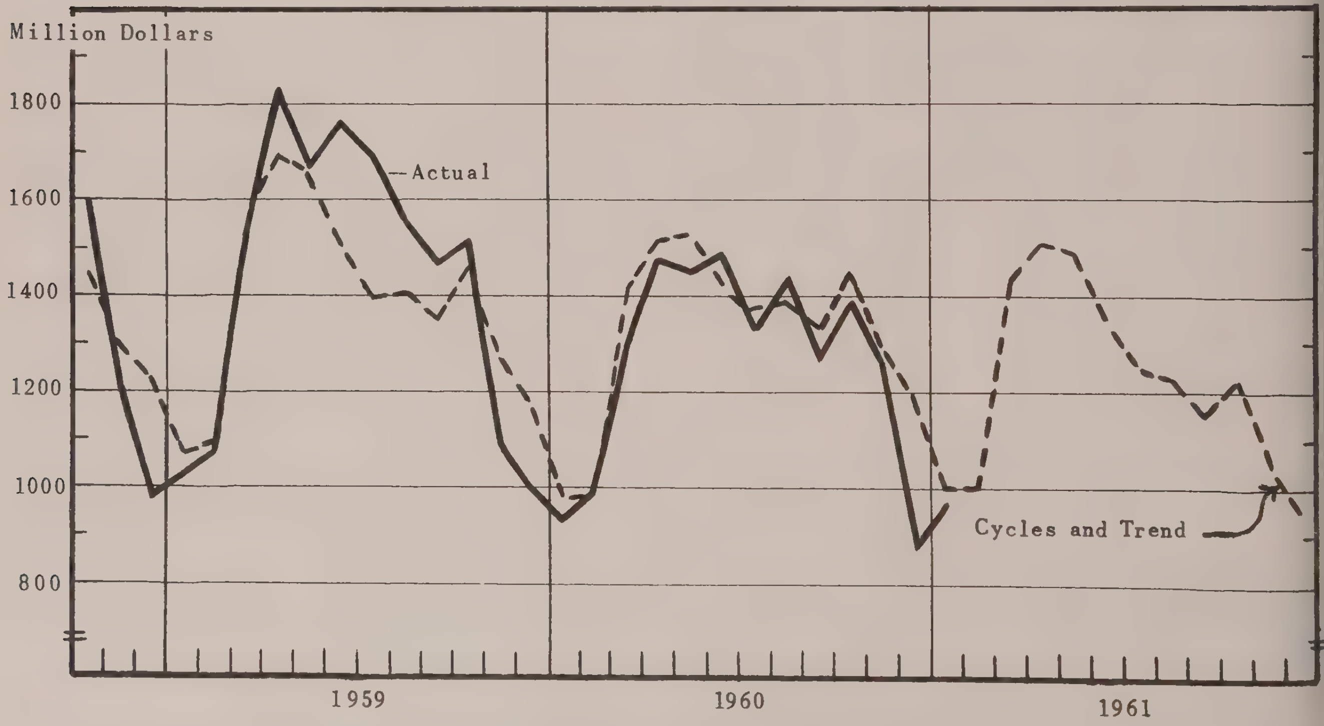


FIG. 12: RESIDENTIAL CONSTRUCTION CONTRACTS

NUMBER OF NEW INCORPORATIONS

The only cycle we have isolated so far in the figures of new incorporations (from Dun & Bradstreet, Inc.) is a seasonal cycle. The figures plotted have been adjusted to *exclude* the seasonal cycle.

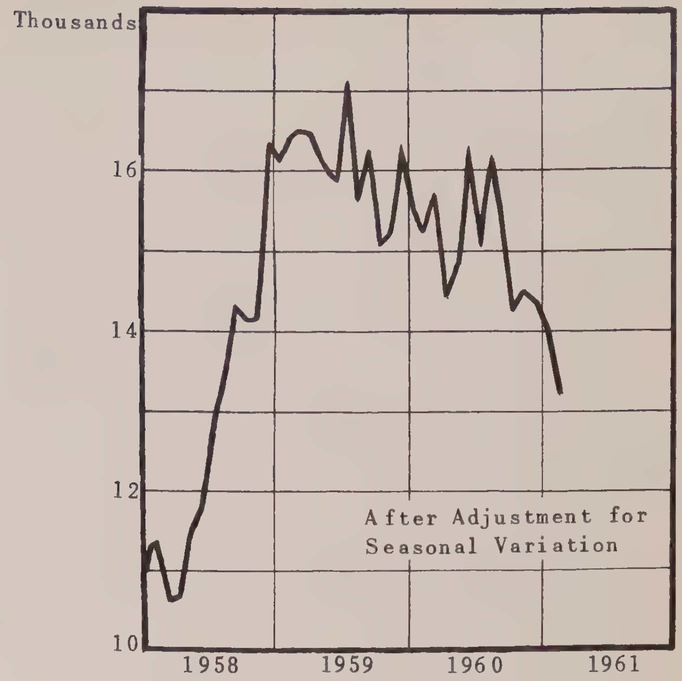


FIG. 13: NEW INCORPORATIONS

LIABILITIES OF COMMERCIAL AND INDUSTRIAL FAILURES

A cycle combination based on yearly figures and including five cycles and a trend is shown by the broken line. The actual liabilities (from Dun & Bradstreet, Inc.) are plotted month by month.

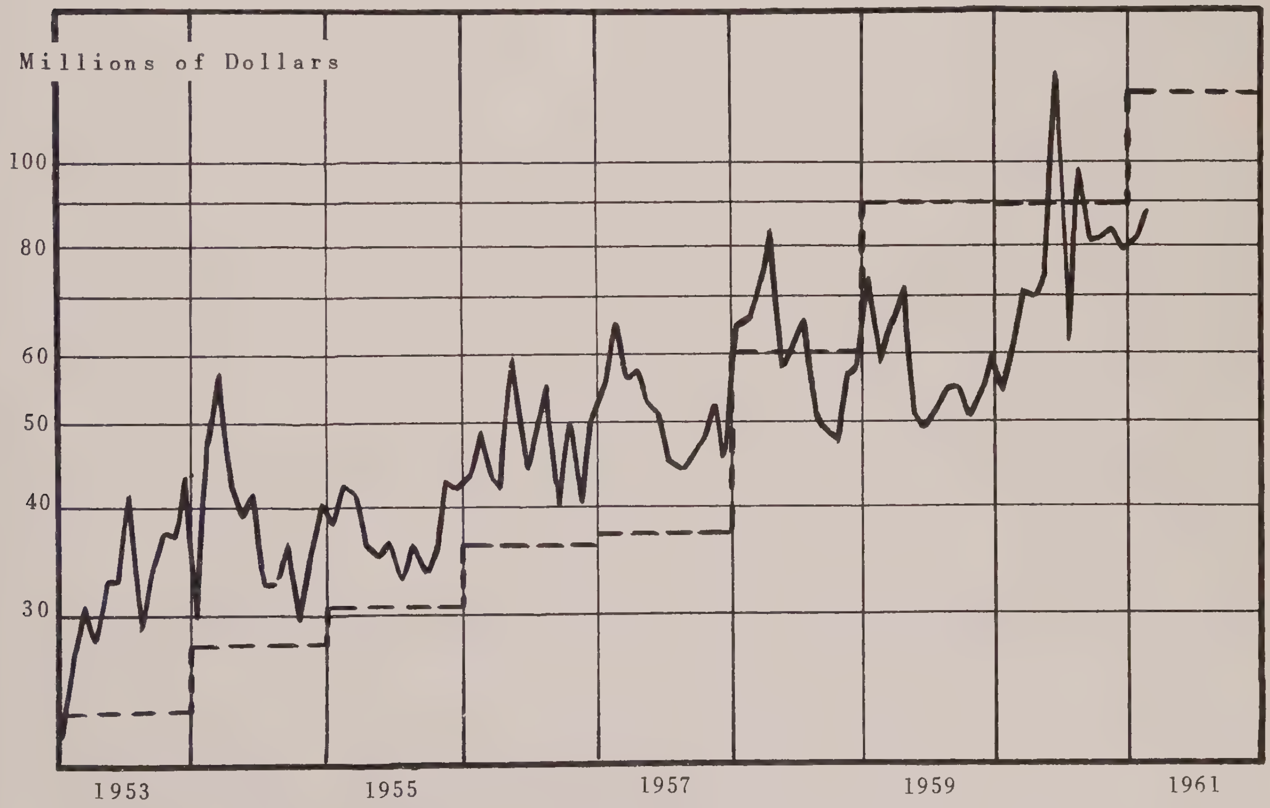


FIG. 14: LIABILITIES OF COMMERCIAL AND INDUSTRIAL FAILURES

NONRESIDENTIAL CONSTRUCTION

The line plotted on the chart is a smoothed one-year per cent curve. It shows the average of the last four months as a percentage (above or below) the same four months of the preceding year. This manipulation removes the seasonal cycle, and smooths out the month-to-month random fluctuations. The figures used are from F. W. Dodge Corporation.

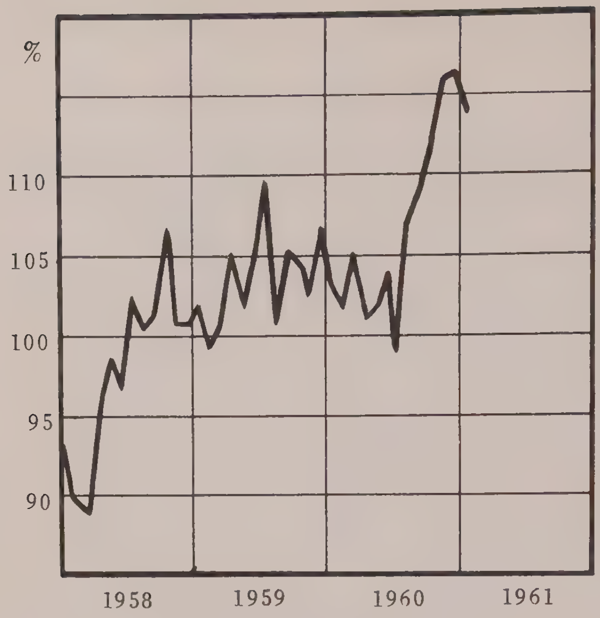


FIG.15: NONRESIDENTIAL CONSTRUCTION CONTRACTS

INDEX OF SENSITIVE PRICES

The chart shows the monthly average of the weekly index of the Prices of 22 Commodities. No adjustment of any kind has been made to these figures.

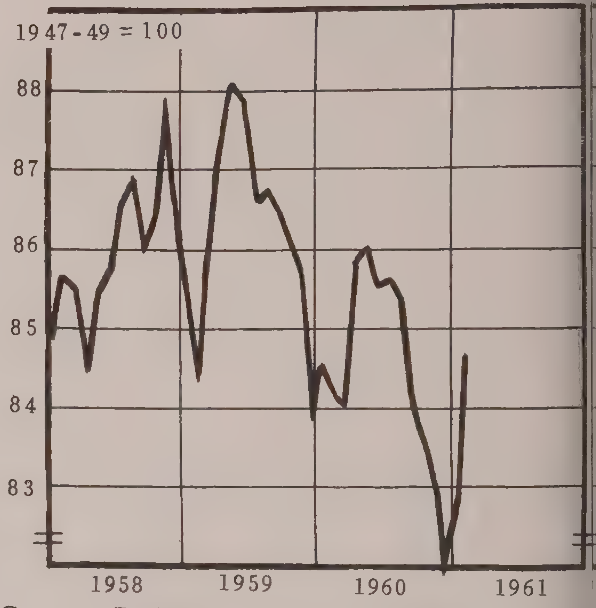


FIG.16: PRICES OF 22 COMMODITIES

HOURS WORKED

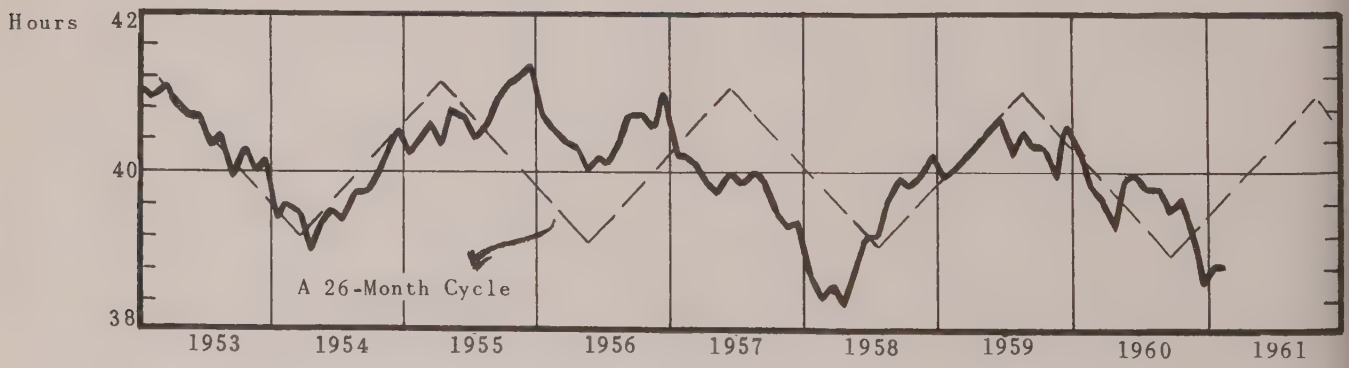


FIG. 17: AVERAGE WEEKLY HOURS WORKED IN ALL MANUFACTURING

CYCLES IN COMMODITY PRICES

SOYBEANS

There has been a strong upsurge in soybean prices since last October. The long declining trend appears to be over, and soybeans are at the highest levels in five years. The October price (No. 1 yellow at Illinois shipping points) was $2.04. Since then the price has risen constantly. The record follows:

	Dollars/bushel
1960-Nov	2.05
Dec	2.15
1961-Jan	2.39
Feb	2.66

The only cycle we have isolated in this series is the yearly one. This *average* seasonal pattern is soybean prices rises from a low in October to a high in May. It is not unusual for soybeans to advance very sharply from the autumn low. See 1953-54 and 1955-56 on the chart. It *is* unusual for the spring rise to extend beyond May, although it has happened. That soybean prices should suddenly rise to the highest levels in five years can be explained on a non-cyclic basis—although there are undoubtedly other cycles besides the seasonal present in the prices. The rise itself was to be expected, remember. It is the extent of the rise that I am talking about.

If we compare the October 1 through February 28 period for 1959-60 to the same period for 1960-61 we find that there has been a 7% increase in soybeans crushed for oil, or processed. There has also been a 9% increase in soybeans exported. Furthermore, as of March 1, 1961 there was on hand for processing, export, or carry-over, 9% less than there was on hand at March 1, 1960. The duration of the rise will depend on many factors, including the seasonal cycle. *G.S.*

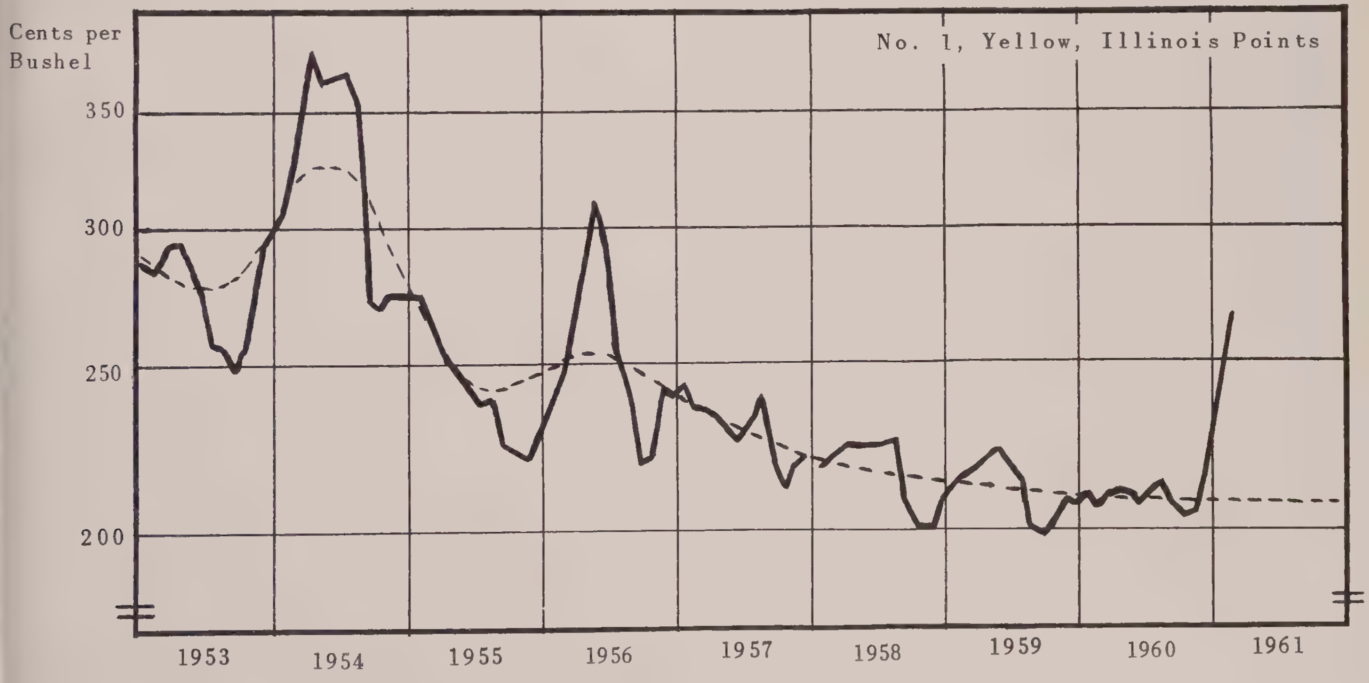


FIG. 18: THE PRICE OF SOYBEANS

WHEAT

The cycle line on the wheat price chart shows the 9.3-year cycle. The most recent ideal turning point in this cycle was a low at February 1960. Until October 1964 this cycle will be exerting an upward force of about 7.5% of trend a year. Although other factors may overwhelm any cycle, the chances, based on past performance, are four out of five that the price of wheat at October 1964 will be above the price at February 1960.

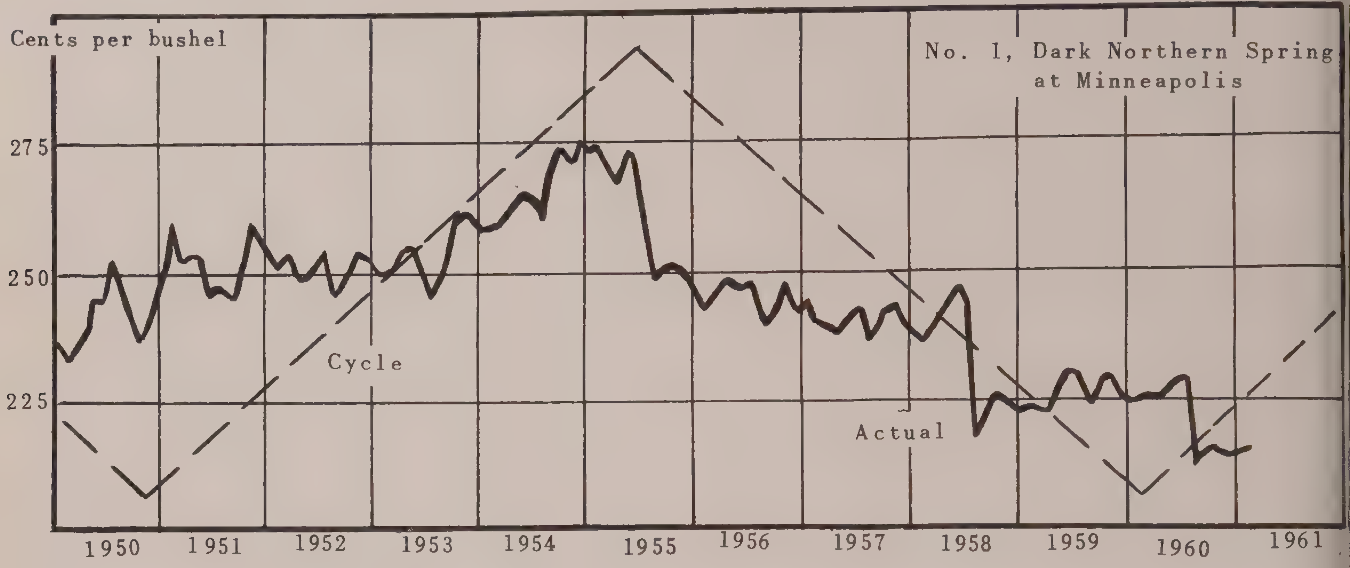


FIG. 19: THE PRICE OF WHEAT

COCOA

Despite the upward force of the 41.7-month cycle, cocoa prices have dropped sharply over the last three months. This means, theoretically, that the forces creating the decline are even greater than appear on the surface. The next high on the cycle is due at October 1961, and after *that* date we can judge whether or not the cycle has been effective during the current up-leg.

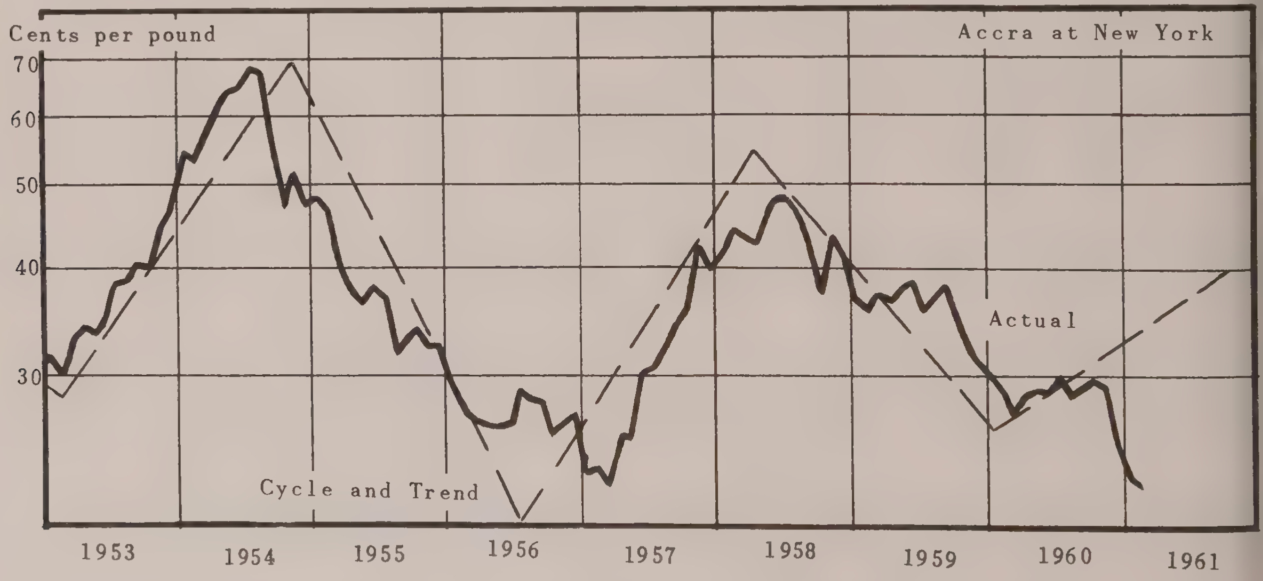


FIG. 20: THE PRICE OF COCOA BEANS

OATS

The actual price of oats has been sagging elow the combined cycles and trend line. The wo cycles included are 12 months and 26.64 onths long. These combined cycles will exert an upward force through May of this year. The trend used in the extension, and to which the cycles are added, is level at 70 cents, and this amount may well be too high.

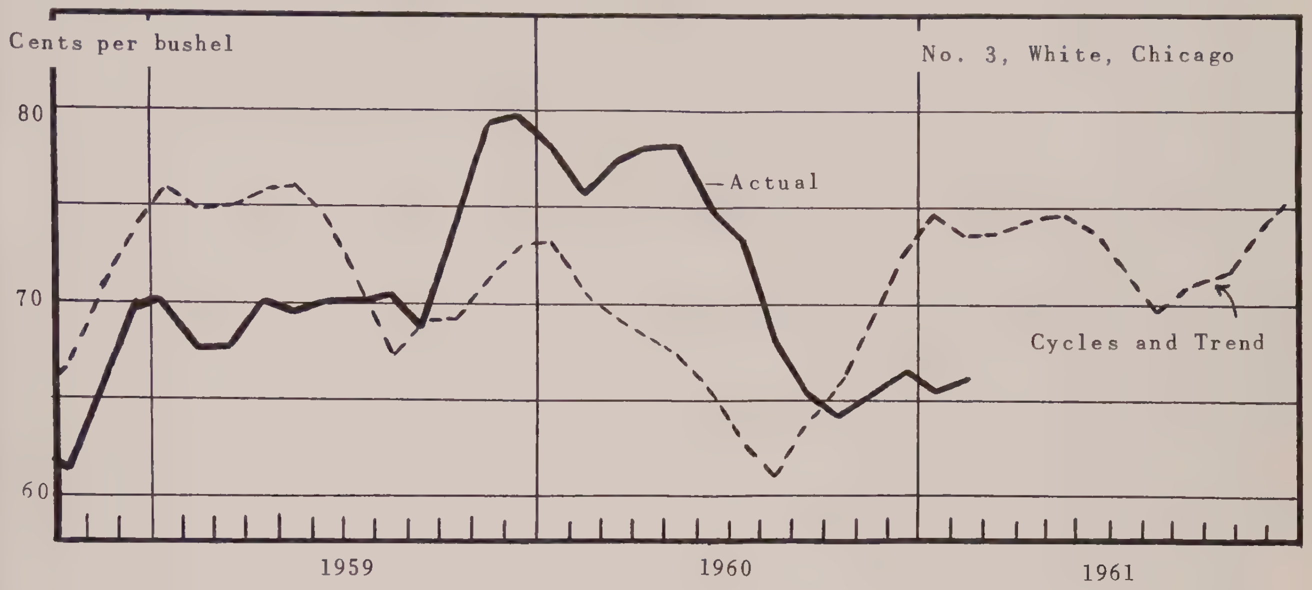


FIG. 21: THE PRICE OF OATS

CORN

. The actual price of corn appears to be atching the current ideal low in the average 7 1/3-month cycle. The cycle is shown comined with a trend, and the average low centers at February 1961. The box on the chart is designed to show the most probable limits within which the low might fall, both timewise and money-wise.

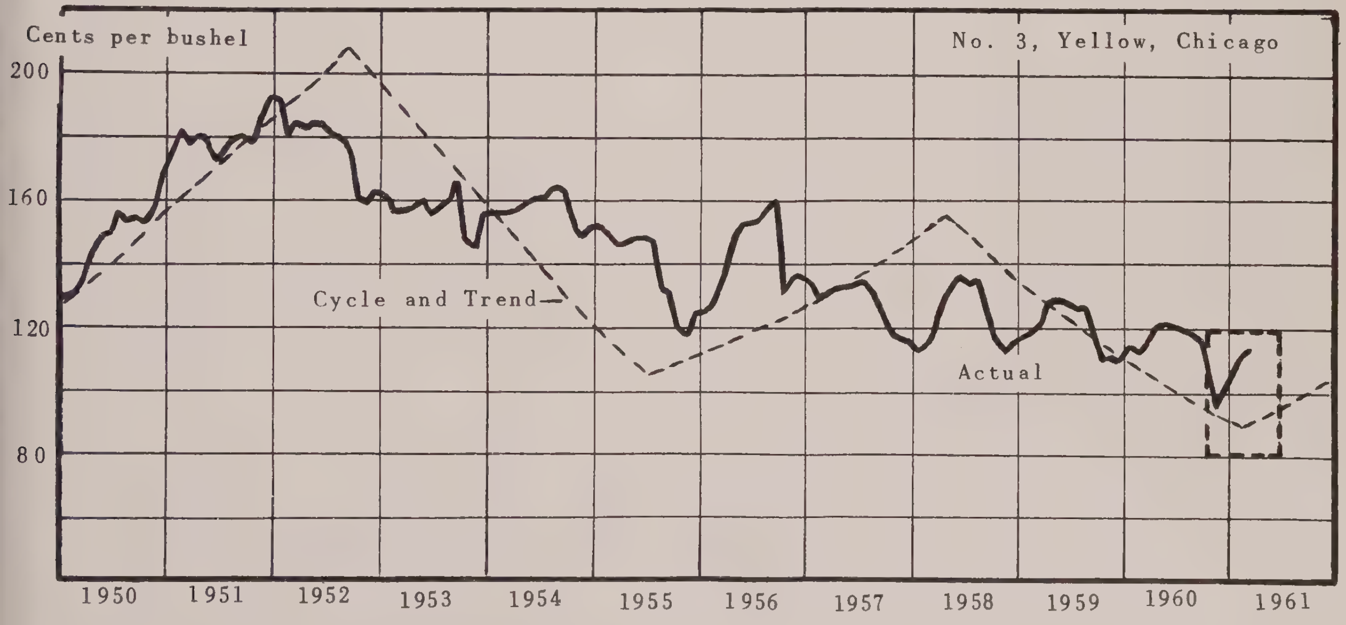


FIG. 22: THE PRICE OF CORN

The Cycle Workshop

ARITHMETIC LINE CHARTS

Sometime ago, back in 1957 to be precise, we started a series of articles on "How To Make A Cycle Analysis." We are resuming the series with this issue, and hope to be able to include some new material each month. For the benefit of the new members who missed the previous articles, we are going back to the very beginning of the subject—back all the way to a description of charts.

Because, if you want to study cycles in your business or in anything else, one of the first things to do is to make a *chart* to show how your sales, or your prices, or whatever else you are interested in, went up or down from day to day, from week to week, from month to month, or from year to year.

There are many kinds of charts, but in cycle study we mostly use what are called *line charts.* A line chart shows you how your figures increase or decrease over a period of time. Almost all charts printed in the magazine *Cycles* are line charts.

A line chart consists of a *grid* and one or more *curves*, and of course the *scales.*

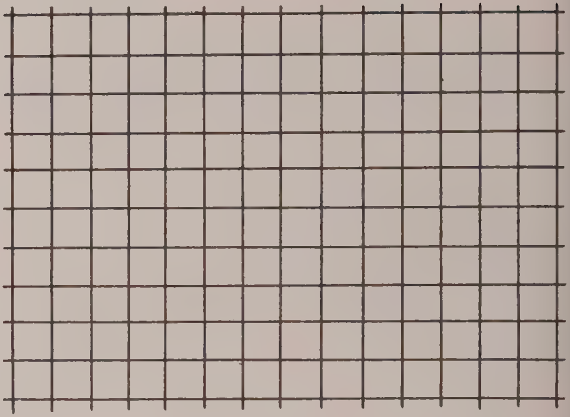
The *grid* is the background of crisscross line on which you plot your *points.* Your points represent the values of your *data* for each time interval—day, week, month, year.

The curve is the line you get when you connect your successive points by straight lines.

Grids

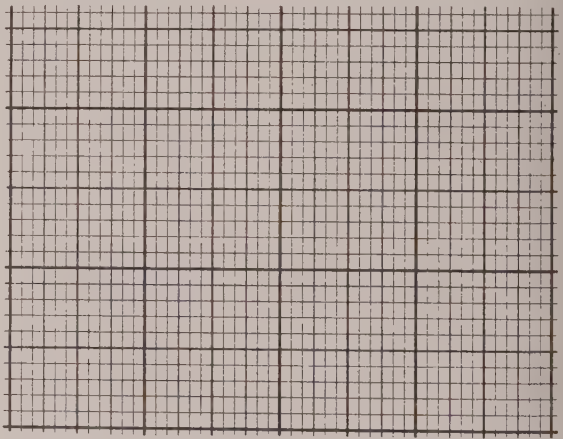
Now let's talk about *grids*—the crisscross background for your curve. There are many kinds of grids, but the kind I want to talk about now is the plain ordinary grid known to everybody. It is the one where the up and down lines are all the same distance apart—so are the lines running across the page. It's called the *arithmetic grid*, and paper printed with a background of such lines is called arithmetic chart paper, or chart paper with arithmetic ruling, or arithmetic paper.

Here are some samples:



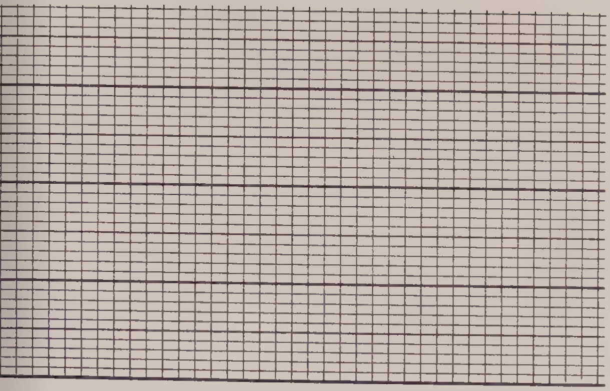
Plain cross section rule. This sample has five lines to the inch, both horizontally (across) and vertically (up and down).

Ruling of this sort is good for many kinds of charting.



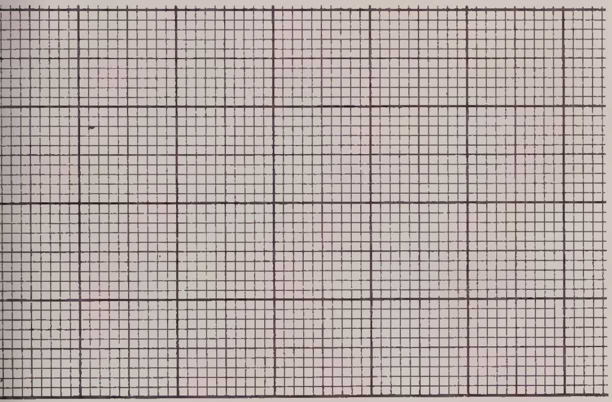
Monthly rule. Every third vertical line accented; every sixth vertical line accented more; every twelfth vertical line accented still more. Horizontal lines also spaced equal distances apart, every fifth one accented, every tenth accented more. Note the vertical and horizontal spacing is not the same.

This ruling is good for charting monthly figures.



Polypurpose rule. None of the vertical nes accented. Every fifth horizontal line ccented; every tenth horizontal line accented re.

This ruling is good for charting daily, eekly, and annual figures. It can also be sed for monthly figures.



Twenty Division Per Inch. In the sample ove there are twenty divisions per inch each y with every fifth and tenth line accented. use this particular type of paper to plot e weekly stock series we are working with ecause the weeks on the tabulation sheets are mbered and every tenth line on the chart has week number ending with a zero. This way we ow every ten weeks that our plotting is rrect time-wise.

Arithmetic chart paper can be bought at any od stationery store—often even at a 10¢ ore. Or write direct to a manufacturer. dex Book Company, Inc. of Norwood, Massachusetts or Keuffel & Esser Company of 127 Fulton St., New York City, both have good selections. Send to one or the other for a catalog.

Scales

It is an accepted convention that distance across the page represents time; up and down distance represents value or quantity.

How much time each space represents is shown by the *horizontal* scale. It is always marked to show you that one space represents a year, for example, or a day, or a week, or a month.

Each vertical space represents some fixed quantity or value—$1,000 per space, for example. The vertical scale tells you what each vertical space represents. The vertical scale should always be marked to show you what is represented—dollars, per cent, tons, bushels, or what.

All the above discussion is on arithmetic line charts. The general type of chart we are considering are *time series* charts. These are divided into two types: (a) arithmetic charts and (b) ratio charts.

In both cases time is represented horizontally across the page by equally divided spaces. In both cases the data are plotted, point by point across the page, one reading for each time period. In both cases the plots are connected by a line to make a curve.

Thus time series charts, either arithmetic or ratio, show the fluctuation of a series of data over a period of time. Most of the charts in *Cycles* are time series charts.

It is of course possible to show data by time periods on other types of charts (bar charts, etc.) but we are deliberately limiting our discussion to the type defined,

The difference between the arithmetic and ratio charts is in the vertical scale and the next article will go into the difference between arithmetic charts and ratio charts.

E.R.D.

LETTERS:

Improvement of *Cycles*

Dear *Cycles:*
Since "you all" asked for it—here goes.

I am repeatedly disturbed by the mention of SINGLE cycles for the stock market because the reference must tempt the partially informed readers to ACT on those cycle projections when such action is neither prudent nor practical.

Please, for the sake of intellectual honesty, stress the fact that general market trends are the result of the combined influence of MANY cycles.

You certainly don't wish to hurt anyone, yet damage is both possible and likely if the report indulges in OVERSIMPLIFICATION. Personal experience backs up this complaint. Stock market operations based on ONE probable recurring cycle simply do NOT give adequate results.

Readers should be reminded that the combined influence of several cycles of different periodicities can EASILY "wipe out" all but a tiny increment of one cycle.

I've wanted to get this off my chest for years, but didn't because I was afraid of hurting the feelings of you people—because I admire you.

San Antonio, Texas E. S. C. Coppock

Comment: Yes, of course you are right. We do try constantly to remind readers that *many* factors, including other cycles, will determine the actual result. Probably the best answer to this difficulty is to keep adding additional cycles to the list. We are printing your lett because this well-worded warning may carr more weight coming from another source. *G.S*

* * *

Dear Miss Shirk:
To keep abreast of events, I find it necessary to read eight weekly news letters i addition to others published semi-monthly an monthly, plus newspapers and trade journals etc., so I do not find for *Cycles* as muc time as I wish I could.

Nevertheless, I do read all *Cycles* article that interest me, and many of these hav nothing to do with my occupation. The charts language, etc., all seem clear enough to me One point that might add to the interest o your readers would be a list at the end o each article showing what things, other tha those mentioned in the article, appear to b affected by the cycle concerned.

One thing: Next time you receive from reader a letter complaining that you do no inform him what the stock market will do between now and a month from today, you repl that if the information could be exactl charted it would come true only if known to very few, because, if the prediction wer generally known, it would be discounted in advance and the result would be wholly different.

Watertown, N. Y. John M. Shele

* * *

Dear Miss Shirk:
Your letter asking for suggestions for improvement finally caught up with me.

Briefly, my suggestions are these:

1. *Sectionalize Cycles, with material on each section in each issue.* Whatever captures and holds the interest of a member must be sustained or the thread of interest is broken and a member lost. There must be continuity of a subject to sustain interest.

2. *Determine what subjects attract the most members.* My own retail experience taught me that success in serving the public depended upon catering to the wants of that class of customer we chose to serve. Therefore, I would suggest a return postal card be enclosed in some issue of *Cycles* asking what subject material they desired in each issue, ranging from every issue to occasional issues.

3. *Increase the amount of charted presen-*

tions. Visual registration often is stronger an words. Make “points” easy to observe.

A question! *Should the Geisinger Indicator e related to stock market timing?* I would! t is evident many subscribers buy *Cycles* or market interest. Because the stock market nticipates business activity by an average f some seven months, I think interest in the agazine would be increased considerably if is remarkable forecaster could be related the swings of the Dow-Jones Averages.

Do an individual stock study, like Westing- ouse, in each issue. On the supposition the ighest ratio of Cycles readers have some nterest in the market, such a “SECTION” n the magazine would prove exceedingly at- ractive.

. *Have one section each month on an academic ubject.* For interest, or curiosity, of course, ut always searching for the basic cause of ycles.

. *Have a section on commodity cycles.* With o much of human activity involved in com- odity relationships, the cycles aspect should ind a broad interest. Which commodities to reat might be determined by survey.

. *Have a section on miscellaneous cycles ata.* This could be a catch-all of whatever rosses your desk that is newsworthy.

. *A section “By the Director.”* To say what he ill—his comments are extremely interesting.

0. *A “letters and answers” section.* These lways are interesting—and give participants feeling of importance. Therefore more loyalty o *Cycles*.

I hope these suggestions will prove of some id toward attaining your objectives.

arbados, W. I. Norman Freeman

omment: We have had many thoughtful letters n response to the request for suggestions hat we sent to a scattered sample of members. ne point that readers do not realize, I think, s that editors *really* pay attention to com- ents and suggestions. Naturally, we work to ake the report as useful and clear as pos- ible.

The problems are endless and many probably ave no final solution. For instance, if we ut a particular subject in the Round-Up *every* onth it may become too repetitious, especially for readers not interested in that subject. Yet, if we put it in every three months or so, we are losing some of the continuity for those readers who are particularly interested in that subject.

About the question: Should the Geisinger Indicator be related to stock market timing? We have had a hard time getting across the idea that the Geisinger Indicator refers directly to industrial production and not to the stock market. In addition, we have not used the Geisinger Indicator to forecast *levels* of production, but rather have relied on the -2.00 Danger Signal and +2.00 Good Times Signal as the best use that can be made of the Indicator.

It is true that the market is often a “leading” indicator. Not always, but often. See the story on page 119 about the relationship between the two series when yearly figures are used. A more detailed study based on monthly figures of the relationship between the two would have to be made before any extension such as you suggest could be published. And it would be more economic analysis than cycle analysis. But, as you say, it would be interesting—and perhaps useful *G.S.*

Luck

Dear Mr. Dewey:

Believing that you are interested in cycles of any kind and nature, I would like to know if there is any such a thing as cycles for holding favorable cards when playing bridge. I very much enjoy a game of bridge. Please be assured that I am a mediocre player and my problem is holding the cards. Last Lincoln's birthday, I was invited to join a game of top bridge players, above and beyond my class. I had an excellent run of cards and came out the top winner.

Since that time, I have been “sloughed”—I simply can't hold a card. In fact, last evening we lost 9 straight rubbers—didn't win a single one. Do you know the answer?

Buffalo, New York Joseph E. Bright

Comment: Your question is a very profound one. Basically you asked, “Is there such a thing as luck?” There are rules for determining statistically the number of “runs” and the length of runs that might occur in random numbers. However, some people claim that runs of good or bad luck exist that are not possible from the standpoint of statistical theory. I do not know the answer. *E.R.D.*

Time and time again . . .

BY GUSTAV GUMPERT

Forecasting Rainfall

Official Weather Bureau rain gauges show that rainfall in Washington from May through August was slightly below normal. But Doctor Charles G. Abbot, the man who predicted last March (as this column reported) that Washington would have a wet summer, insists that he was right—despite what the gauges might show.

"The weather in Washington has gone very close to my predictions," Doctor Abbot maintained.

How does he account for the difference between the gauges and his forecast that rainfall during that period would be 26 percent above normal? You must take into consideration, Doctor Abbot says, that his predictions are long range. They are figured for a four-month interval, based on his theory that weather repeats itself at regular intervals. He pointed out that in his recently published report, he included tables containing predictions for individual months.

"They show that I predicted the rainfall in July would be about normal and would be below normal in August—and I was right," he said.

In 1948, when he was issuing what he called his 175-day forecast of rainfall in Washington, he said, 14 women called him up and asked him what would be the best possible day to hold their weddings.

"They followed my advice and hit it right on the nose 13 times and were only slightly off on the 14th," he said. "That day it was cloudy."

The Magnetism of HD 215441

Doctor Horace W. Babcock, of the Mount Palomar observatory, says he's discovered the strongest magnetic field ever found in nature—one 34,000 times stronger than that of earth.

This field surrounds a star which is a neighbor of our solar system in the Milky Way. It's known to astronomers as HD 215441. Doctor Babcock hasn't made it clear yet what this observation might mean. But it seems logical to guess that so much magnetism may have some effect—perhaps a cyclical one—on our solar system.

Cycles in Bank Robberies

"These things run in cycles," a federal bank examiner said recently of the outbreak of robberies involving men and women regarded as pillars of civic virtue.

The FBI's recent arrest of two Mason City, Michigan business-men on charges of defrauding the local bank of some $375,000 was the latest in a rash of embezzlements and check kiting schemes designed to loot small town banks. Crimologists have often pointed out that there's a pattern in the incidence of crime. Is it imitation or cycles?

Time of Your Life

We recently reported the findings of Doctor Frank A. Brown, Jr., who is investigating the built-in time clocks in animals and plants. For many years, some believed that the "clock" functioned independently of the external environment, as a self-sufficient, biochemical process.

But now Doctor Brown, working with Doctor Karl C. Hammer, a research geologist of the University of California, has found this notion inadequate as an explanation of how the timing mechanism works. Brown believes that the "clock" is set by external influences acting on the organism from the environment. It's probable, he says now, that a principal influence on the basic rhythms of life is the earth's magnetic field.

The two scientists are now conducting a series of experiments that may prove the point. They are conducting an experiment at the pole with living things (revolving them on turntables counter to the earth's rotation), and will soon have the results.

This may resolve a number of questions about exogenous versus endogenous cycles.

Market Cycles

Our indications for March, showing a dip for the 12th and the 26th, seemed to be offset by the enormous upsurge that has characterized the first quarter of the year. The dips occurred (as measured by some indicators), but were very minor. The April indications: 1-8, down slightly; 8-21, up slightly; 21-28, up.

HE GEISINGER INDICATOR

ontinued caution indicated:

There was no change in the Federal Reserve
oard's seasonally adjusted Production Index
rom January to February. For both months the
ndex stood at 155.

The fact that the decline in the pro-
uction of physical goods stopped at February
ay be the main reason for the recent opti-
istic publicity releases from Washington.
nis optimism may, however, be premature. The
eisinger Indicator has not yet turned sharp-
y upward. In fact, the Geisinger Indicator
or November was down a little to -2.60. And,
f I had to make a "best possible" guess as
o the December Geisinger Indicator (August
961 when advanced), I would put it at -2.60,
ne same as for November.

Although it is a good sign that there was
o further drop in the Production Index from
anuary to February, I will refrain from much
ptimism until the Geisinger Indicator cuts
2.00 going up.

The First Difference Indicator, i.e., the rate of change of production, went down a little in January to -2.34. This could be the low, but to be sure we must wait and see.

The Modified Geisinger Indicator went down to -4.60 in November (July 1961 when advanced). This Indicator combines the First Difference Indicator and the Geisinger Indicator.

Although I do not believe the present decline in production will lead to a runaway type depression, it appears to me to be a little early for optimism. If we rely on the Geisinger Indicator (which has been consistently right since it began) the conclusion at this date can only be that continued caution is necessary, and that there is as yet no solid reason for cheer, although the skies do look brighter.

March 29, 1961 E. R. Dewey

he recent figures:

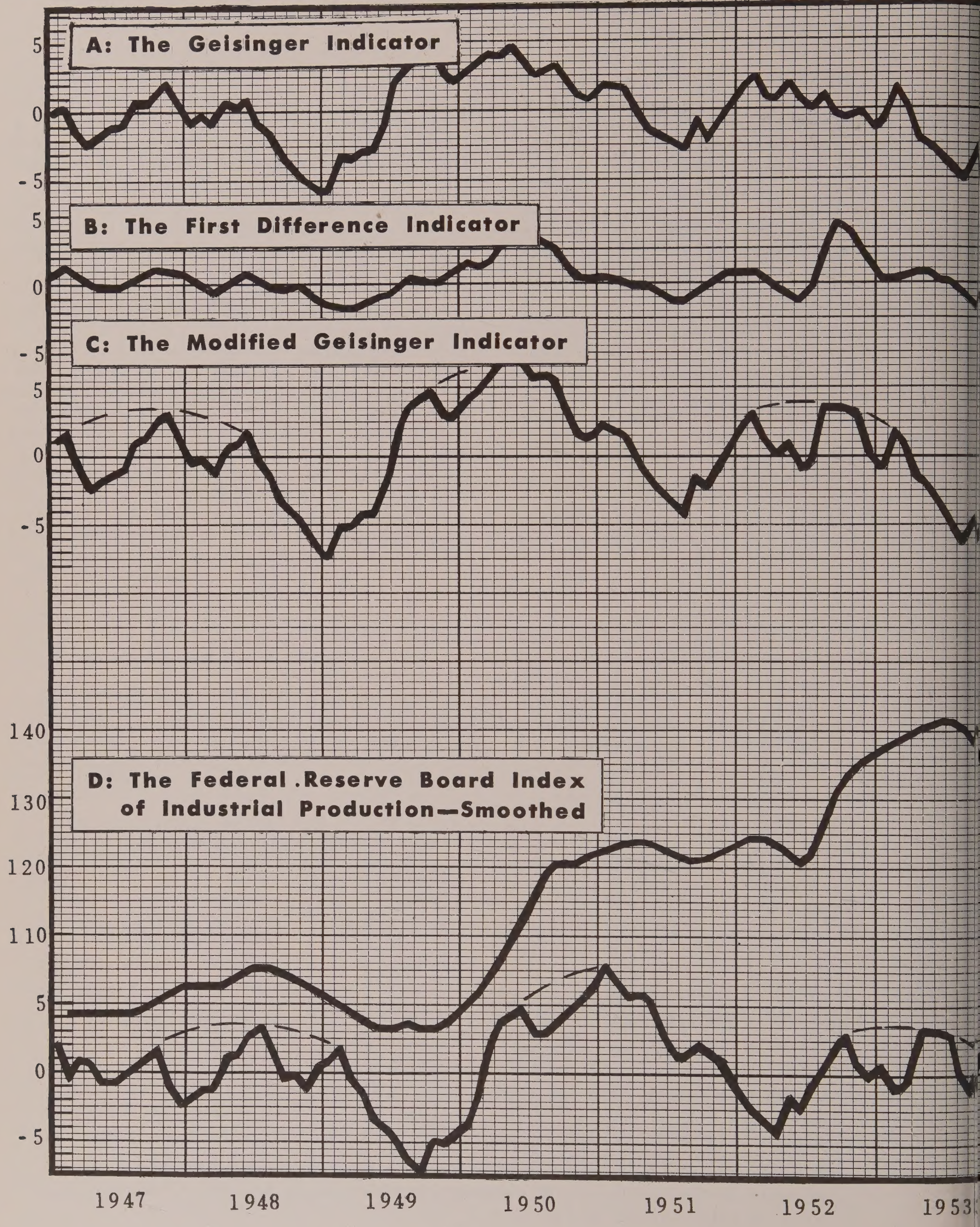
Month	F.R.B. Index	Geisinger Indicator	First Difference Indicator	Modified Geisinger Indicator	Timing Advanced 8 Months
Apr-1960	165	-2.00	-0.33	-2.53	1960-Dec
May	167	-0.20	0.16	-0.04	1961-Jan
Jun	166	0.20	0.17	0.37	Feb
Jul	166	0.00	-0.17	-0.17	Mar
Aug	165	-2.20	-1.00	-3.20	Apr
Sep	162	-3.00	-1.50	-4.50	May
Oct	161	-2.40	-1.83	-4.23	Jun
Nov	159	-2.60	-2.00r	-4.60	Jul
Dec	156r	*	-2.00r	*	Aug
Jan-1961	155	*	-2.34p	*	Sep
Feb	155p	*	*	*	Oct

r - revised; p - preliminary; * - not yet available

he chart: See the next two pages

For $3 a year extra members can get the Geisinger Indicator text and figures by first-class mail immediately after it is written. This service saves you the month that it takes to print and mail Cycles.

The Geisinger Indicator Compared To Indus



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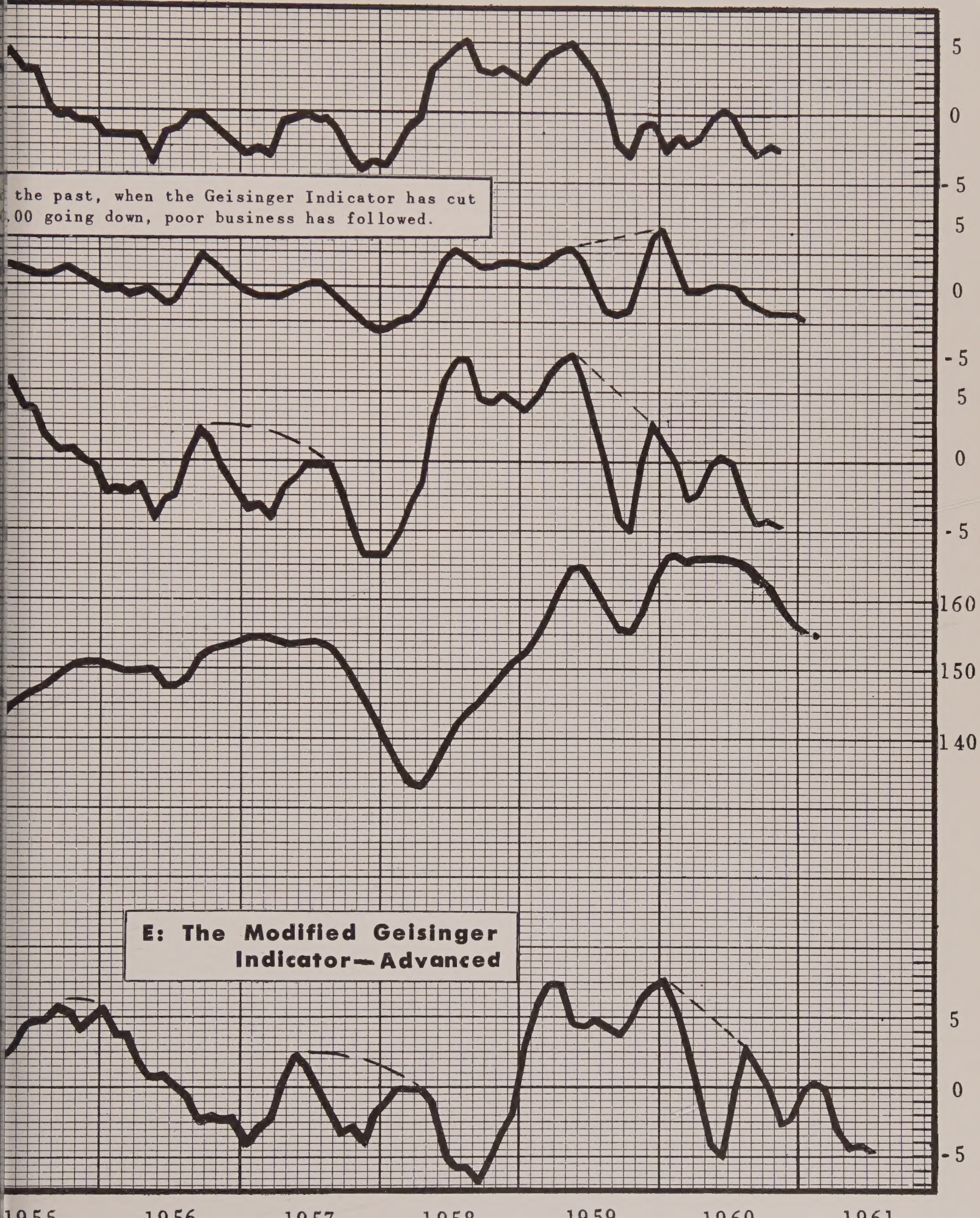

the past, when the Geisinger Indicator has cut .00 going down, poor business has followed.

E: The Modified Geisinger Indicator—Advanced

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